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International Forest Product Limited

INTERFOR

INTERFOR PACIFIC

2007

Annual Report

Includes:

- **Message to Shareholders**
- **Management Discussion and Analysis Dated February 6, 2008**
- **Consolidated Financial Statements**
- **Annual Information Form Dated February 6, 2008**

International Forest Products Limited

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INTERFOR

International Forest Products Limited

HIGHLIGHTS

	2007	2006	2005
	(in millions of dollars, except share and per share amounts)		
Financial Summary			
Sales	611.0	824.4	842.6
EBITDA (note 1)	31.8	185.7	116.3
Net earnings (loss)	(13.3)	95.5	19.7
Per Share Data			
Net earnings (loss) per common share			
- basic	(0.28)	1.97	0.41
- diluted	(0.28)	1.95	0.40
Price range per share			
$ High	9.84	8.11	7.94
$ Low	5.02	5.91	6.12
Book value per share	9.09	9.93	7.94
Cash Flow per share before working capital change	0.53	2.95	0.93
Weighted average shares outstanding (millions)	47.6	48.5	48.7
Financial Position			
Total assets	546.7	675.1	599.6
Total debt	34.7	41.4	103.1
Total shareholders' equity	428.2	478.0	386.5
Invested capital	462.9	519.4	489.6
Financial Ratios (%)			
Return on average shareholders' equity	(2.9%)	22.1%	5.2%
Return on average invested capital	(3.5%)	24.9%	4.8%
Net debt as a % of invested capital	1.9%	(29.1%)	7.1%

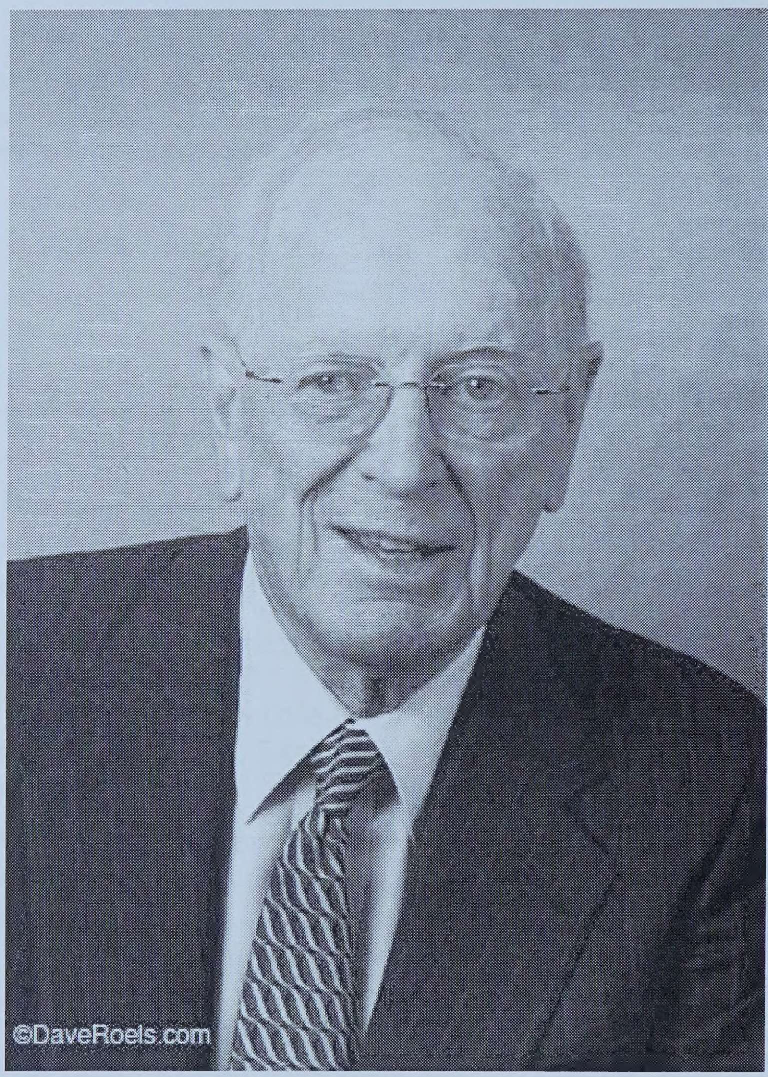
Notes:

1. EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber.

"2007 was a challenging year for Interfor and every other company involved in the North American forest products industry. A collapse in new home construction in the United States along with other factors outside our control had a material impact on our financial performance last year. In spite of the difficult operating environment, we were able to make significant progress in 2007 in our efforts to position Interfor as one of North America's leading lumber and building products companies."

Message to Shareholders – February 2008

For further highlights, please see the Message to Shareholders and Management's Discussion and Analysis on the following pages.



WILLIAM L. SAUDER

1926 - 2007

INTERFOR

International Forest Products Limited

MESSAGE TO SHAREHOLDERS

OVERVIEW

2007 was a challenging year for Interfor and every other company involved in the North American forest products industry. A collapse in new home construction in the United States along with other factors outside our control had a material impact on our financial performance last year. In spite of the difficult operating environment, we were able to make significant progress in 2007 in our efforts to position Interfor as one of North America's leading lumber and building products companies.

Highlights for the year included:

- Completion of the wood-fired energy system at Adams Lake;
- Completion of the new primary breakdown line at Port Angeles, followed by the installation of a new log merchandizing system and planer at the same facility; and
- Agreement to acquire three sawmills and associated timber harvesting rights from Pope & Talbot.

We believe these investments – along with our other activities – will significantly enhance Interfor's earnings and cash generating capability in the years ahead and, ultimately, will provide superior returns for our shareholders.

We invite you to review the material covered in the next few pages and in the detailed material contained later in this report, and to form your own views on the progress we have made. Please feel free to forward any comments you would like to make to me directly at duncan.davies@interfor.com.

EXTERNAL FACTORS AFFECT RESULTS; DIVERSIFICATION STRATEGY HELPS TO MODERATE IMPACT

The downturn in new home construction in the U.S. which began in mid-2006 gained momentum in 2007. Housing starts totaled 1.35 million for the year compared with 1.80 million in 2006 and 2.07 million in 2005. By December, the inventory of unsold homes had reached almost 10 months' supply (compared to "normal" inventories of 4 to 5 months) and starts had fallen to an annualized rate of just over 1.0 million units. After a short lived rally in the second quarter, lumber prices spiraled downwards in the second half of the year, as falling demand outpaced contractions in supply. The average price of the benchmark SPF 2X4 was down US$46 per thousand board feet or 15.4% compared to 2006.

Compounding the drop in lumber prices was the unprecedented rise in the Canadian dollar which climbed to a record high of US$1.10 in November, and the 15% export tax on shipments to the U.S. imposed under the 2006 Softwood Lumber Agreement ("SLA"). And, finally, a 15 week strike by the United Steelworkers at our B.C. Coastal operations had a further negative impact on production and profitability in 2007.

Helping to offset these external factors, however, was the Company's strategy to diversify its product lines and geographic base of operations. The cedar and offshore markets remained reasonably strong in 2007 and delivered respectable results in spite of the strike. And, with 40% of our production capacity in the U.S. Pacific Northwest, Interfor was less impacted by the shifts in currency rates than some producers.

At the end of the day, Interfor recorded a net loss of $13.3 million on sales of $611 million in 2007. This result was significantly below that achieved last year which was supported in part by the duty refund received under the SLA.

MONETIZATION PROGRAM GENERATED $6.9 MILLION

Our program to monetize non-core and non-performing assets continued in 2007, with a total of $6.9 million generated from a number of small transactions, the most notable being the sale of TFL 54 on the west coast of Vancouver Island to a company formed by local First Nations.

DISCRETIONARY INVESTMENT PROGRAM TOTALS $40.0 MILLION; NEW MILL APPROVED FOR ADAMS LAKE

Our program to accelerate the rate of capital reinvestment gained momentum in 2007 with discretionary spending of $40.0 million during the year. In total, capital spending in 2007 amounted to $76.4 million.

Major projects were completed at Adams Lake and at Port Angeles in 2007 and delivered impressive results.

At Adams Lake, the new wood-fired energy system came on line in the 1st quarter. This project, which cost a total of $14.7 million, displaced the use of liquefied natural gas which was trucked to the site, and delivered pro forma results within 2 months of start-up. At Port Angeles, the new double length primary breakdown line, built at a cost of US$18.3 million, was also commissioned in the 1st quarter with similarly impressive results.

The Port Angeles project was supplemented with a new log merchandizing system and planer (complete with continuous tilt hoist) in the 4th quarter at a cost of US$5.8 million.

In our view, the Port Angeles mill now stacks up as one of the most efficient and lowest cost stud mills in North America.

The projects completed at Adams Lake are part of a Master Plan for the facility which commenced in 2003. The final stage of the Plan – the construction of a new sawmill – was authorized by our Board of Directors in April. The project has a capital budget of $100 million and incorporates state-of-the-art technology. Production capacity at the new mill is estimated at 280 million board feet on a 2 shift basis. Construction commenced shortly after the project was authorized and is expected to be finished in the 4th quarter of 2008. When completed, the new mill should be amongst the most competitive in the southern interior region of B.C.

ACQUISITION OF POPE & TALBOT MILLS WILL ADD TO B.C. INTERIOR PLATFORM

In November, we announced an agreement to acquire three mills from Pope & Talbot Inc. as part of that company's restructuring program. The agreement involves the Castlegar and Grand Forks sawmills and related timber tenures in the southern B.C. Interior as well as a sawmill in Spearfish, South Dakota. The purchase price is US$69 million, plus working capital, which we estimate to be in the range of US$20 million. Court approval for the transaction was received in early January 2008.

Subsequent to announcing the transaction, agreement was reached to sell the Spearfish mill to a local operator for US$14 million plus an estimated US$6 million in working capital.

The Castlegar and Grand Forks mills are capable of producing in the range of 460 million board feet on a 2 shift basis. Their acquisition will add critical mass in one of our core operating regions and will broaden our product lines in both specialty and commodity grades. The transaction is expected to close in March or April, 2008.

SHARE BUY-BACK RECOGNIZES VALUE

In November 2006, interfor received approval from the Toronto Stock Exchange ("TSX") to buy-back up to 2,366,000 Class A shares. A total of 1,220,100 shares were repurchased under the program in 2007 at a total cost of $9.8 million.

In November 2007, we applied to the TSX for approval to renew the program, with the authority to purchase up to 1,300,000 Class A shares. We received approval in early January 2008.

In our view, our shares are significantly undervalued. A buy-back program is an attractive investment opportunity and is consistent with our goal to create long-term value for our shareholders. That said, with cash flow limited by the downturn in the market, we will in all likelihood be less active in this area than we have been in recent years.

BALANCE SHEET REMAINS STRONG; NEW FINANCING AGREEMENT IN PLACE

Interfor's balance sheet continues to be one of the strongest in the sector. At year-end, the Company had cash and deposits of $26.6 million, and net debt of $8.1 million, or 1.9% of invested capital.

In February 2008 we obtained a financing commitment from our lenders to extend the maturity date of our credit facilities and to increase our Canadian lines of credit from $50 million to $215 million. Our US$35 million credit line remains in full effect.

With our strong balance sheet and these credit lines in place, Interfor is well-positioned to weather a prolonged downturn in product markets and to fund our plans for growth.

PROGRESS CONTINUES ON THE ENVIRONMENTAL FRONT

Interfor continued to make good progress on the environmental front in 2007. In May, our efforts were recognized when we were named a co-recipient of the World Wildlife Fund's Gift to the Earth Award. This award, which is WWF's highest international accolade, acknowledged our participation in a collaborative process which led to landmark agreements regarding forest conservation and management of BC's coastal forests.

In 2007 our BC forestry operations, which are certified under SFI, continued to perform well. We also continue to actively support the use of wood in green building initiatives and other programs to reduce the use of fossil fuels, such as the wood-fired energy system at Adams Lake.

FATALITIES UNDERMINE IMPROVEMENTS IN SAFETY PERFORMANCE

Providing a safe work environment for our employees and contractors is a hallmark of our business philosophy. In many respects, 2007 was a year of progress, with fewer medical incidents and injuries than any year in our history. In fact, the number of lost time accidents dropped by 55% compared with 2006, and the number of serious injuries dropped by 40%. Unfortunately, two of the serious injuries resulted in fatalities.

In August, Dale Malberg, age 37, a millwright with thirteen years of experience at Adams Lake, died while trying to resolve a jam-up in a conveyor at the energy system. And in November, Cody Davies, age 22, who was in his first year at Adams Lake, lost his life trying to unblock a photo-eye on the canter line.

The loss of these two young men reminds us of the need for constant vigil in the area of safety.

Following Cody's death, a full-scale review of the procedures and practices at Adams Lake was undertaken by a group of the Company's senior managers and a number of changes were introduced at the facility and at our other operations.

Everyone at Interfor understands that an unyielding commitment to safety is required if we expect to achieve our goal of eliminating serious injuries and fatalities.

In memory of Dale Malberg and Cody Davies, we intend to do everything in our power to achieve our goal.

QUEENSBORO CURTAILED INDEFINITELY; OPTIONS BEING EXPLORED

In mid-December, we announced that our Queensboro Sawmill Division, located in New Westminster, B.C., would be curtailed indefinitely while we explored alternatives for the operation. Approximately 110 employees were affected by the decision.

The Queensboro facility – which was previously known as Western Whitewood, or 3W – was significantly rebuilt in 2003/4 at a cost of $25.8 million. Unfortunately, a number of deficiencies in the design of the mill limited its operating flexibility and performance. At the end of the day, the mill was never able to achieve the cost structure we anticipated when the project was undertaken.

We are now actively exploring alternatives for the operation, including the possibility of selling the mill or the site on which it is located.

Voluntary severance has been offered to the mill's employees.

LAWRENCE SAUDER APPOINTED CHAIRMAN

On December 19th, Bill Sauder, Interfor's founder and Chairman, passed away following a brief illness. Bill was a man of outstanding character and integrity who made a tremendous contribution to our Company, our industry and to the community-at-large. His presence and wise counsel will be missed by everyone at Interfor.

To replace Bill, Interfor's Board of Directors in early February 2008 elected Lawrence Sauder as the Company's new non-executive chairman.

Lawrence Sauder, age 55, has been a director of Interfor since 1984 and most recently served as Vice-Chairman of the Board and as a member of the Management Resources and Compensation Committee. Lawrence also serves as Chairman of Sauder Industries Limited, a privately-held manufacturer and distributor of building products, and as Chairman of Hardwoods Distribution Income Fund (TSX: HWD.UN-T), a distributor of wood products. Lawrence is intimately familiar with Interfor and with the challenges and opportunities facing the industry and we look forward to working with him in the years ahead.

NEAR-TERM OUTLOOK IS CHALLENGING; FOCUS REMAINS CLEAR

The extent of the U.S. sub-prime mortgage problem and its impact on home construction and the economy in general is only now beginning to come into clear view. We fully expect product prices and financial returns to remain under significant pressure throughout 2008.

In the face of this outlook, we take comfort from the fact that Interfor is in great shape financially and that our goals are clear.

During 2008 we will follow the path laid out some years ago: to transform Interfor into one of North America's leading lumber and building products companies. While additional care and attention will be required in face of uncertainty, we believe attractive opportunities will emerge over the course of the year to build value for the long-term. We intend to be in a position to take advantage of those opportunities.

Thank you for your continued support.

Duncan K. Davies
President and Chief Executive Officer

February 6, 2008

International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of February 6, 2008

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2007 relative to 2006, the Company's financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and Consolidated Financial Statements for the years ended December 31, 2007 and 2006 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for U.S. duty refunds, net, and other income. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

FORWARD LOOKING STATEMENTS

This report contains statements that are forward looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates and other factors referenced herein (see "Risks and Uncertainties" below).

OVERVIEW OF 2007

2007 proved to be a most challenging year for the lumber industry, with a combination of depressed North American structural lumber prices, a record-high Canadian dollar, and a 15% export tax, resulting in the lowest sales realizations for Canadian producers in recent memory. Compounding the challenges for B.C. Coastal producers was a 15-week strike in the second half of 2007, which disrupted logging and lumber operations. In the face of these challenges, the Company reported a net loss of $13.3 million, or $0.28 per share, for the year ended December 31, 2007.

The year was not, however, without its highlights, as the Company continued to benefit from the diversification of its product lines and markets, and from its dual strategy of investing in its core assets and capitalizing on attractive growth opportunities. A brief overview of the more significant developments in 2007 is presented below.

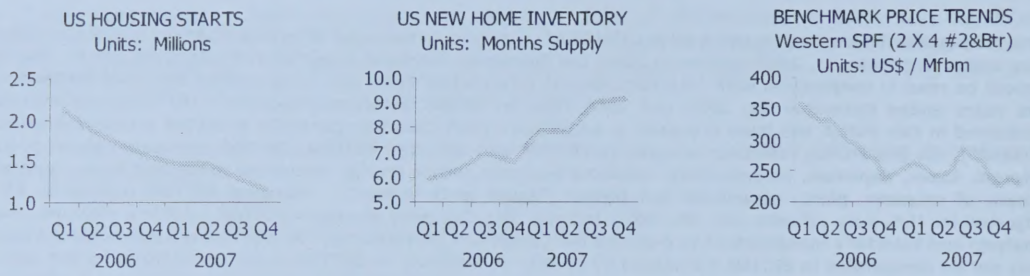
Markets and Pricing

Lumber

- North American Structural Lumber

  The continued downturn of the U.S. housing market dominated North American structural lumber markets in 2007. Construction activity fell off sharply in the second half of the year, with the fallout from the U.S. sub-prime mortgage market weighing heavily on the sector. Seasonally adjusted housing starts in December 2007 were down 38.2% year-over-year, and for the year were down 25.8% compared to 2006 - the largest decline since 1980. New home inventories climbed 55.0% year-over-year, ending the year at 9.6 months supply, 3.4 months higher than one year earlier.

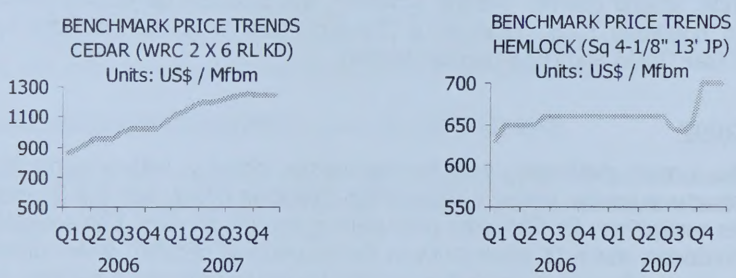
After a modest and short-lived price rally late in the second quarter, prices spiraled downwards in the second half of the year, as falling demand outpaced contractions in supply. For 2007, the average Random Lengths ("RL") price for Western SPF 2"x4" was down US$46 per thousand board feet (mfbm), or 15.4%, compared to 2006.



Source: Random Lengths, used with permission

- Cedar

Market conditions for the Company's cedar products were favourable through most of 2007, driven in part by effective market promotions, strong offshore demand, and tight supply. Several price increases across all product lines were implemented in the first nine months of the year; prices for several product lines in U.S. markets came under pressure towards the end of 2007, but prices for higher-end products held firm. Year-over-year, the average RL knotty Western Red Cedar 2"x6" price increased US$233 per mfbm, or 23.9%.



Source: Random Lengths, used with permission

- Japan

In Japan, market conditions for the majority of the Company's products were stable through the first half of the year. Prices weakened in the third quarter of 2007, as a result of delays in the issuance of home permits required by changes to the building code, and waning demand, but recovered before the end of the year, mostly due to reduced supply. Compared to 2006, the average 2007 RL price for Hemlock Square 4-1/8" was up US$12 per mfbm, or 1.9%.

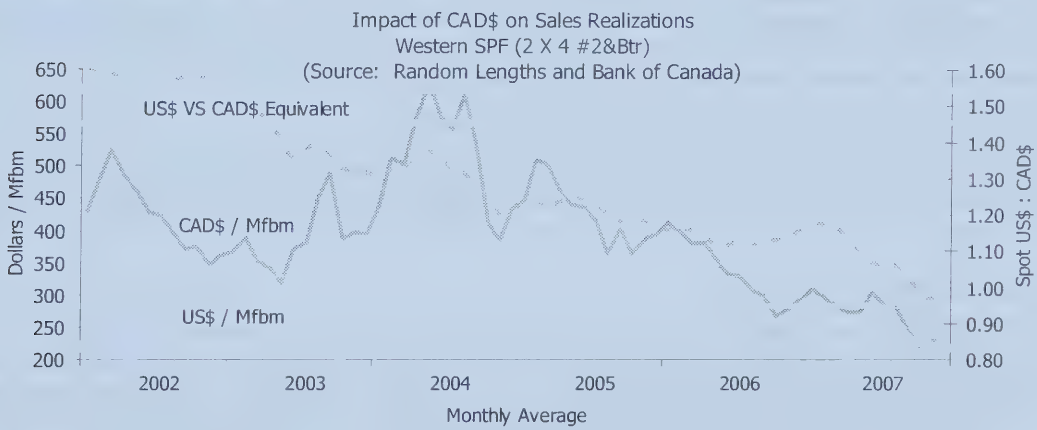
Logs and Residuals

Higher pulp operating rates in 2007 led to a sharp rise in log prices in the U.S. Pacific Northwest ("Pacific Northwest") region in the first half of the year, but prices fell back in the second half in response to increased sawmill curtailments. Average log prices on the B.C. Coast were up in 2007, reflecting a significant rise in stumpage rates related mostly to higher cedar log prices. Residual chip values in the first half of 2007 were up sharply in the first half of 2007, buoyed by strong demand from pulp producers, but fell off as the year progressed due primarily to the stronger Canadian dollar, for Canadian producers, and oversupply in the Pacific Northwest.

Record-High Canadian Dollar

The Canadian dollar ("CAD$") recorded an unprecedented rise versus the U.S. dollar in 2007, climbing to a record high of US$1.00: CAD$0.9066 in November 2007. The stronger CAD$ reflected high demand for oil, gas and metals produced in Canada as well as the fallout in the U.S. from the sub-prime mortgage market. Currency markets were volatile through most of the year, and the CAD$ ended the year at CAD$0.9913, up 17.4 cents, or 14.9%, from the end of 2006. Year-over-year, the average CAD$ was up 5.9 cents, or 5.2%, from $1.134 in 2006 to $1.075 in 2007.

The significance of the stronger CAD$ on Canadian lumber producers' sales realizations is highlighted in the following chart, which shows the average US$ price and CAD$ equivalent of a thousand board feet of Western SPF 2"x4" 2&Btr for the period 2002 through 2007. Over that period, the CAD$ equivalent of Western SPF 2"x4" 2&Btr priced at US $230 per mfbm has declined $137 (from $367 to $230), or 37.3%.



Export Tax

As a result of the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the United States on October 12, 2006, Canadian softwood lumber exporters now pay an export charge when the price of lumber is at or below US$355 per mfbm, as determined by the Random Lengths Framing Lumber Composite Price ("RLCP"). The Province of B.C. has the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"). The Province of B.C. chose Option A for both the B.C. Coast and the B.C. Interior which results in the Company's Canadian lumber exports to the United States being subject to the following taxes:

Price [1]	Export Tax (%)
Over US $355	Nil
US $336 - $355	5
US $316 - $335	10
US $315 or under	15

[1] Based on the prevailing RLCP

The Option A export charge through 2007 was 15% as the prevailing RLCP throughout that period was below US$315 per mfbm.

Indefinite Curtailment at Queensboro Sawmill

The severity of the market downturn, together with the strong CAD$, significantly undermined the economics of the Company's Queensboro sawmill division, located in New Westminster, B.C., and in late 2007 the Company decided to curtail the mill indefinitely. The Company is currently exploring alternatives for the operation, including the possibility of selling the mill.

Labour disruption

The Company's B.C. coastal operations were impacted by labour disruption in 2007, with the United Steelworkers Union ("USW") commencing strike action in late July. The USW voted to return to work in November, after reaching an agreement with the Company on a new contract providing for wage increases of 2%, 3% and 2% over a 3 year term.

The Interfor-USW agreement includes enhanced language related to providing severance pay to workers in the event of the permanent closure of a significant portion of the production facilities at any of the Company's three Coastal sawmills. The strike disruption resulted in significantly reduced sales of higher-value cedar and hemlock products.

Major Capital Projects at Operations

During 2007, the Company commenced and/or completed several strategic capital investments at its Adams Lake operation in the southern B.C. Interior, and its Port Angeles and Molalla mills in the Pacific Northwest.

<u>Pacific Northwest</u>

- Port Angeles

  In February 2007, the Company completed the installation of a new primary breakdown line at its Port Angeles operation. The new breakdown line has surpassed expectations, performing well ahead of pro forma production and is delivering significant performance improvements. In late 2007, as a next step of the Company's master plan for the facility, a new log merchandizing and planer were installed. By year end, both installations were generating targeted productivity improvements.

- Molalla planer

  A new state-of-the-art planer was installed at Molalla in late 2006. The planer reached pro-forma operating levels in early 2007, and subsequently continued to set new production-highs during the balance of the year, consistently performing in excess of 110% of pro-forma. The planer is now considered to be one of the top performing single-line stud planers in the world.

<u>Adams Lake</u>

- In early 2007, the Company completed the successful installation of a wood-fired energy system, which removed the mill's dependence on expensive liquid natural gas.
- In April 2007, the Company's Board of Directors approved the construction of a new sawmill at Adams Lake, to replace the existing facility. The new mill, which is projected to cost in the region of $100 million, is the final stage of an Adams Lake Master Plan. The new mill has been specifically designed to match the current and future timber resource in the area and to address the challenges of sawing timber affected by the Mountain Pine Beetle. The mill will incorporate proven technology and will materially improve the operating efficiency and cost structure of the Adams Lake operation. Construction commenced in the summer of 2007. The project remains on budget and schedule for completion by the end of 2008.

Acquisition of Pope and Talbot Mills and Woodlands

On November 19, 2007, the Company reached agreement with Pope and Talbot, Inc. ("P&T") to acquire its Castlegar and Grand Forks sawmill assets and related timber tenures in the Southern B.C. Interior, and its Spearfish sawmill assets in South Dakota. The purchase price is US$69 million, plus working capital and adjustments for certain other items.

The Company subsequently signed an agreement with a private company to sell the Spearfish, South Dakota sawmill for US$14 million plus working capital, with the sale closing concurrently with the P&T transaction.

The transaction received Bankruptcy Court approval in the U.S. and Canada on January 7, 2008 and has also been approved by the Canadian Competition Bureau and U.S. anti-trust authorities. Completion of the transaction remains conditional upon receipt of certain other regulatory approvals which are expected to be granted late in the first quarter, or early in the second quarter, of 2008.

The acquisition of the two sawmills will increase Interfor's total lumber capacity by approximately 460 million board feet per year to approximately 1.8 billion board feet. The mills will add critical mass in one of the Company's core operating regions and broaden the Company's product lines in both specialty and commodity grades. The timber tenures to be acquired represent annual harvesting rights of approximately 1.0 million cubic metres in the Southern B.C. Interior.

The Company has identified a number of opportunities to improve the financial performance of the mills through improvements in operational efficiency and other non-capital initiatives, and other cost savings that will be realized through high-return capital projects.

Strong Financial Position

The Company maintained a strong financial position throughout 2007, ending the year with cash and deposits of $26.6 million, and net debt of $8.1 million, or 1.9% of invested capital, after taking account of its fully drawn US$35.0 million non-revolving term line. On February 1, 2008, the Company obtained a financing commitment from its lenders to extend the maturity date of its syndicated credit facilities, and increase its Canadian operating and revolving term lines of credit from $50 million to $215 million.

REVIEW OF OPERATING RESULTS

Selected Annual Financial Information

		2007	2006	2005	2004	2003
		(millions of dollars except share and per share amounts)				
Sales	–Lumber	434.5	625.6	661.5	633.9	486.4
	–Logs	118.6	103.2	105.1	137.0	92.2
	–Wood chips and other by-products	50.2	41.9	34.1	38.3	28.5
	–Other	7.7	53.7	41.9	34.7	33.9
Total Sales		611.0	824.4	842.6	843.9	641.0
Operating earnings (loss) before U.S. duty refunds, net of restructuring costs and asset write-downs		(25.3)	14.4	10.2	23.8	(42.4)
Operating earnings (loss)		(27.2)	103.7	(31.5)	(2.2)	(45.6)
Net earnings (loss)		(13.3)	95.5	19.7	24.7	(22.7)
Net earnings (loss) per share – basic		(0.28)	1.97	0.41	0.51	(0.58)
Net earnings (loss) per share – diluted		(0.28)	1.95	0.40	0.50	(0.58)
EBITDA[3]		31.8	185.7	116.3	109.5	4.6
Cash flow from operations per share[1]		0.53	2.95	0.93	1.20	(0.12)
Shares outstanding	– end of period (millions)[2]	47.1	48.1	48.7	48.6	48.4
	– weighted average (millions)	47.6	48.5	48.7	48.4	39.5
Adjusted EBITDA[3]		25.8	68.6	74.7	88.0	1.3

1 Cash generated from operations before taking account of changes in operating working capital.
2 As at February 6, 2008, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,089,076 Class B Common shares – 1,015,779, Total – 47,104,855.
3 The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for U.S. duty refunds, net and other income. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2007	2006	2005	2004	2003
	(millions of dollars)				
Net earnings (loss)	$(13.3)	$95.5	$19.7	$24.7	$(22.7)
Add: Income taxes (recovery)	(13.7)	42.2	(7.2)	0.4	(15.7)
Net interest (income) expense	(1.3)	3.4	4.7	3.2	3.7
Interest income on U.S. duty refunds, net of special charge	-	(12.7)	-	-	-
Depletion and amortization	50.9	52.0	57.5	55.2	36.1
Other foreign exchange (gains) losses	7.3	(2.3)	-	-	-
Restructuring costs, asset write-downs and other	2.0	7.6	41.7	26.0	3.2
EBITDA	$31.8	$185.7	$116.3	$109.5	$4.6
Deduct:					
U.S. duty refunds, net	-	96.9	-	-	-
Other Income	6.0	20.2	41.6	21.5	3.3
Adjusted EBITDA	$25.8	$68.6	$74.7	$88.0	$1.3

Volume and Price Statistics

		2007	2006	2005	2004	2003
Lumber sales	(million fbm)	870	1,172	1,161	894	632
Lumber production[1]	(million fbm)	856	1,165	1,143	901	637
Log sales[2]	(thousand cubic metres)	1,223	1,190	1,360	1,636	1,142
Log production[2]	(thousand cubic metres)	1,767	2,381	2,558	2,964	1,965
Average selling price – lumber[3]	($/thousand fbm)	$499	$534	$570	$709	$770
Average selling price – logs[2]	($/cubic metre)	$95	$86	$76	$84	$81
Average selling price – pulp chips	($/thousand fbm)	$49	$33	$26	$37	$37

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs
2 B.C. operations
3 Gross sales before duties and export taxes

Comparison of Year ended December 31, 2007 to Year ended December 31, 2006

The Company recorded a net loss of $13.3 million or $0.28 per share (diluted $0.28 per share) for the year ended December 31, 2007, compared to net earnings of $95.5 million or $1.97 per share (diluted $1.95 per share) for the year ended December 31, 2006. The net earnings for 2006 included U.S. duty refunds and related interest which positively impacted 2006 net earnings, and net earnings per share, by $72.2 million, and $1.49 per share, respectively.

EBITDA for the year ended December 31, 2007 was $31.8 million, compared to $185.7 million in 2006. Adjusted EBITDA for the year ended December 31, 2007 was $25.8 million, compared to $68.6 million in 2006.

Sales

Total sales revenues were $611.0 million in 2007, down $213.4 million from $824.4 million in 2006.

Lumber sales revenue decreased by $191.1 million in 2007 compared to 2006, due to the unfavourable structural lumber markets, the USW strike impact on availability of product, and the stronger CAD$. Average unit sales values in 2007 were down 6.5%, reflecting the erosion of U.S. structural lumber prices, the stronger Canadian dollar, and a strike-related lower-value sales mix, offset in part by higher

cedar prices. Lumber shipments were down 25.7% from 2006, reflecting market related curtailments and the impact on the Company's B.C. manufacturing operations of the 15-week USW strike. The comparable period in 2006 also included shipments from the Company's MacKenzie sawmill, which was sold in September 2006.

Log sales revenue in 2007 was up $15.3 million, or 14.8%, compared to 2006, mostly due to an increase in average log prices of 9.9%, driven by higher demand for logs. Pulp chip and other by-product revenues increased by $8.4 million in 2007 compared to 2006, with higher average sales values more than offsetting lower sales volumes arising from lower operating rates in the second half of 2007. Other Sales for 2007 were down $46.0 million, or 85.7%, principally due to the Company's sales in 2006 of its helicopter logging operation and assets ("Helifor") and B.W. Creative Wood Industries Ltd. ("BWC"), a secondary manufacturing operation.

Operating Costs

Production costs for the year ended December 31, 2007 were down $162.0 million, or 22.4%, compared to 2006. This was primarily due to a reduction of 428,000 cubic metres, or 20.5%, in B.C. Coast log production volumes and 301,000 mfbm, or 25.7%, in lumber production volumes due to the USW strike and market conditions. The disposal of the Company's Helifor, MacKenzie and BWC operations during 2006 also contributed to the decrease. Higher pulp company operating rates led to a sharp rise in purchased log costs in the Pacific Northwest region in the first half of 2007, but prices fell back later in the year in response to increased sawmill curtailments. Log costs for the B.C. Coastal region were up in 2007, reflecting increased stumpage rates.

Export taxes increased by $6.1 million, or 226.3% from 2006, as 2006 reflects only a partial year of taxes charged under the agreement as the terms of the SLA were implemented on October 12, 2006. As export taxes vary based on the price of lumber and volume of shipments from Canada to the United States, the reduced sales volumes resulting from the strike and curtailments had a direct impact on the magnitude of the export taxes.

Selling and administration costs in 2007 were down $1.0 million, or 5.8%, from 2006, reflecting cost control efforts and lower salary costs in 2007. Long-term incentive compensation ("LTIC"), which is impacted by the Company's share price, the number of grants made under the various plans and vesting periods, showed a recovery of $0.5 million in 2007 (2006 - LTIC expense of $0.6 million). At December 31, 2007, the price of the Company's Class A Subordinate Voting shares ("Class A Shares") had declined to $6.04/share from $7.19/share at December 31, 2006.

Timber depletion and road amortization costs decreased by $1.1 million compared to 2006, with substantially all of the decrease resulting from a reduction in conventional logging production due to the strike. Amortization of plant and equipment in 2007 was substantially unchanged from 2006 as reduced amortization on production plant and equipment during the strike curtailment was offset by the amortization of capital projects as they completed in 2007.

Restructuring costs and asset write-downs totaled $2.0 million in 2007, compared to $7.6 million in 2006. The costs in 2007 consisted of early retirement and other severance costs and contractor buyout costs, totaling $2.3 million, which were partially offset by the recovery of $0.3 million from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia. The following table shows the components of restructuring costs and write-downs of plant and equipment for both years:

	2007	**2006**
	(millions of dollars)	
Property, plant, equipment and timber write-downs	$ -	$ 5.9
Severance and other restructuring costs, net of recoveries	2.0	1.7
	$ 2.0	$ 7.6

Other Income

Other income in 2007 was $6.0 million (2006 - $20.2 million) and was substantially comprised of gains from the disposal of surplus property, plant and equipment, the disposal of the Company's interest in Tree Farm Licence 54 and $1.3 million in proceeds from the disposal of bridges, under the terms of the Forest Revitalization Act.

	2007	2006
	(millions of dollars)	
Gain on disposal of investment, surplus property, plant and equipment and roads	$ 4.8	$ 21.4
Gain settlement of timber takeback resulting from B.C. Forest Revitalization Plan	1.3	-
Other, net	(0.1)	(1.2)
	$ 6.0	$ 20.2

Interest

In 2006, the Company recorded $12.7 million of interest income arising on the U.S. duty refund monies, net of a 18.06% special charge on the duty refund. Excluding the duty refund interest, net interest income in 2007 was up $4.7 million compared to 2006, in large measure due to interest revenue generated by the U.S. duty refund monies.

Equity Income

The Company recorded equity income of $0.2 million in 2007 compared to $2.3 million in 2006. The decrease was largely attributable to reduced earnings of Seaboard Shipping Company, mostly related to the stronger CAD$ and the USW strike.

Income Taxes

The Company recorded an income tax recovery of $13.7 million for 2007 (2006 – expense of $42.2 million) with an overall effective rate of 50.7% (2006 – 30.6%). The higher rate in 2007 was mainly attributable to non-taxable equity income on certain investments and the benefit of reductions in income tax rates recently legislated for 2008 through 2012.

Net Earnings (Loss)

As a result of the above factors, the Company recorded net loss of $13.3 million, and $0.28 per share, for the year ended December 31, 2007 compared to earnings of $95.5 million, and $1.97 per share, for the year ended December 31, 2006.

Cash Flows

Operating Activities

Cash generated by operations, before working capital changes, was $25.3 million for the 2007 year (2006 - $143.1 million). After taking account of cash used by working capital of $70.3 million (2006 - $43.3 million generated from), total cash used by operations was $45.0 million for the year (2006 - $186.4 million cash generated from). The decrease reflected the lower earnings in the 2007 year, payments in 2007 of the SLA special charge liability of $24.4 million and income tax of $26.2 million on 2006 earnings. In 2006, the Company also used cash of $25.0 million to pay off its securitized receivables.

Investing Activities

Cash invested in property, plant and equipment, timber and logging roads and acquisitions totaled $74.0 (2006 - $90.6 million). The Company incurred expenditures of $45.7 million for property, plant and equipment and deferred startup costs and $28.3 million for road construction and acquisition of timber licences. Major projects in 2007 included the installation of the new hog fuel fired energy system at

Adams Lake, the commencement of the Adams Lake sawmill rebuild, and the Port Angeles upgrades. Approximately 80% of the expenditures on plant and equipment are expected to enhance the competitive position of the Company, with the remainder used to maintain the efficiency of the Company's operations.

Cash proceeds from the sale of non-core assets in 2007 totaled $8.3 million (2006 - $49.2 million).

Financing Activities

On November 9, 2006, the Company commenced a Normal Course Issuer Bid ("NCIB") to acquire up to 2,366,000 Class A Shares through the Toronto Stock Exchange ("Exchange"). The NCIB expired on November 8, 2007, by which time the Company had purchased 1,307,300 Class A Shares at an average price of $7.99 per share.

In total, the Company acquired 1,220,100 Class A Shares in 2007 (2006 – 691,700) at a total cost of $9.8 million (2006 - $4.7 million) and all such shares were cancelled as purchased. The excess of cost over the assigned value of the total Class A shares purchased in 2007 totaled $2.3 million (2006 - $466,000), and this amount has been charged to contributed surplus for the year ended December 31, 2007.

On January 3, 2008, the Company commenced a new NCIB, entitling it to purchase up to 1,300,000 Class A Shares through the Exchange. The program commenced on January 8, 2008 and will terminate on the earlier of the date on which the Company has acquired 1,300,000 Class A shares and January 7, 2009.

FINANCIAL POSITION

Summary of Financial Position

	2007	2006	2005	2004	2003
			(millions of dollars)		
Current assets	158.3	289.7	173.7	186.8	130.5
Current liabilities	50.0	123.8	145.4	86.4	82.6
Working capital	108.3	165.9	28.3	100.4	47.9
Total assets	546.7	675.1	599.6	567.4	466.8
Total long-term liabilities	68.5	73.4	67.6	108.3	37.0
Operating debt	0.0	0.6	62.4	0.0	13.0
Long-term debt	34.7	40.8	40.7	74.2	0.0
Total debt	34.7	41.4	103.1	74.2	13.0
Shareholders' equity	428.2	478.0	386.5	372.7	347.2
Invested capital	462.9	519.4	489.6	446.9	360.2

Ratio and Investment Information

	2007	2006	2005	2004	2003
Current ratio	3.2	2.3	1.2	2.2	1.6
Net debt as a percentage of invested capital	1.9%	(29.1%)	7.1%	13.0%	3.6%
Total debt as a percentage of invested capital	7.5%	8.0%	21.1%	16.6%	3.6%
Return on average shareholders' equity[1]	(2.9)%	22.1%	5.2%	6.9%	(7.0)%
Return on average invested capital[1]	(3.5)%	24.9%	4.8%	6.6%	(5.8)%
Pre-tax return on total assets[1]	(4.3)%	2.0%	2.1%	5.2%	(8.3)%
Cash flow from operations as a percentage of total debt[1]	73.0%	345.8%	44.1%	78.0%	(38.0)%
Equity per share	$9.09	$9.93	$7.94	$7.66	$7.18

	2007	2006	2005	2004	2003
			(millions)		
Weighted average shares outstanding for the year	47.6	48.5	48.7	48.4	39.5
Number of shares outstanding at year end:					
Class A subordinate voting[2]	46.1	47.1	47.7	47.6	47.4
Class B common[2]	1.0	1.0	1.0	1.0	1.0
	47.1	48.1	48.7	48.6	48.4
Re-investment of Cash					
Cash flow from operations[1]	25.3	143.1	45.5	57.9	(4.9)
Cash generated from (used in) operating working capital	(70.3)	43.3	23.3	5.1	6.0
Proceeds on disposal of assets	8.3	49.2	47.8	33.0	3.5
Capital expenditures and acquisitions	(74.0)	(90.6)	(157.0)	(156.6)	(39.9)

1 See Glossary for definition.
2 As at February 6, 2008, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,089,076 Class B Common shares – 1,015,779, Total – 47,104,855.

Current Assets

Cash on hand and deposits at December 31, 2007 totaled $26.6 million, down $122.6 million from 2006, as the cash received from the duty refunds at the end of 2006 was utilized to fund capital expenditures, share buy-backs, the payment of the SLA special charge liability of $24.4 million and income tax payments of $26.2 million on 2006 earnings.

Accounts receivable at December 31, 2007 were $13.6 million, or 26.8%, lower than 2006, primarily as a result of lower sawmill operating rates and sales values.

Inventory levels at December 31, 2007 were down $4.7 million compared to 2006. Lumber inventory volumes decreased by 6.0% due to the indefinite curtailment of the Queensboro sawmill, and the effects of the 15 week USW strike. Lumber inventory unit values increased 1.6%, primarily reflecting a heavier cedar component in 2007 year-end inventories, offset in part by lower structural whitewood prices. B.C. log inventory volumes were virtually unchanged year-over-year, but unit values were lower by 3.6%, as lower hemlock and fir log prices were offset by the build up of cedar logs over the strike period.

The Company had current income taxes recoverable of $8.8 million at December 31, 2007 (2006 - $27.4 million payable) that resulted mainly from the carry-back of 2007 losses in Canada to recover income taxes paid in 2006.

Current Liabilities

As at December 31, 2007, the Company had a Canadian operating line of credit ("Operating Line") of $40.0 million and a U.S. operating line of credit ("U.S. Line") of US$10.0 million, respectively. Drawings under these lines are subject to borrowing base calculations dependent upon accounts receivable, inventories and certain accounts payable. At year end, the Company's unused available Operating Line was $35.2 million, after outstanding letters of credit of $4.8 million, and its unused available U.S. Line was $9.8 million. The Company's working capital ratio at December 31, 2007 was 3.2 to 1.

On February 1, 2008, the Company obtained a financing commitment from its lenders to increase and extend the maturity date of its syndicated credit facilities. The Operating Line will increase from $40.0 million to $100.0 million. The financing is expected to close on the earlier of the P&T acquisition date or April 25, 2008. The Operating Line will mature 364 days from the financing closing date.

Accounts payable levels at December 31, 2007 were $50.0 million, or 47.6%, lower than for the 2006 year end, due primarily to reduced levels of production in the second half of 2007 and the Company's SLA special charge liability of $24.4 million at the end of 2006, which was subsequently paid to the Canadian government in January 2007.

Investments and Other Assets

Investments and Other Assets decreased by $3.5 million compared to December 31, 2006. This was substantially due to an income distribution of $4.4 million received from the Seaboard Partnership in early January 2007, which was recorded as a reduction of the investment in the Seaboard Partnership, in accordance with equity accounting. The Company's investment in Seaboard is subject to the customary risks and uncertainties that affect an international shipping company, and include open market charter rates, foreign exchange rates, and the costs of fuel oil.

Property, Plant and Equipment, Timber and Logging Roads

The Company's net book value of property, plant and equipment, timber and logging roads remained virtually unchanged over 2006, with total amortization and depletion expense of $50.7 million and the foreign exchange translation impact on capital assets of U.S. operations of $23.6 million offsetting capital spending of $76.4 million.

Investments in property, plant and equipment consisted of high-return discretionary projects of $40.0 million, maintenance of business projects of $7.8 million, and $0.2 million of development costs related to surplus land either sold or being prepared for sale. Major capital investments in 2007 included the completion of a new hog fuel fired energy system at Adams Lake and various upgrades at Port Angeles, and the commencement of the Adams Lake sawmill rebuild.

At December 31, 2007, the Company had outstanding contractual commitments related to plant and equipment expenditures of approximately $24.9 million. This amount is included in the table shown in "Summary of Contractual Obligations" below.

Long-Term Liabilities

In 2007, the Canadian revolving term line (the "Revolving Line") was reduced from $40.0 million to $10.0 million with an option available to the Company to increase the maximum borrowing available to $100.0 million, subject to the consent of the lenders. The maturity date was extended to April 25, 2008.

The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans. The Revolving Line was undrawn both at December 31, 2007 and December 31, 2006.

The US$ non-revolving term line (the "Non-Revolving Line") remained fully drawn at US$35.0 million (2006 – US$35.0 million) and was revalued at the year-end exchange rate to $34.7 million (2006 - $40.8 million). The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans, and matures on September 1, 2009.

Both of the term lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, and mortgage security on sawmills and charges against timber tenures. The lines are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

Under the terms of the financing commitment obtained on February 1, 2008, the Company's Revolving Line will increase from $10.0 million to $115.0 million. The financing is expected to close on the earlier of the P&T acquisition date or April 25, 2008. In the event that the P&T transaction completes later than April 25, 2008, $55.0 million of the Revolving Line will be made available on April 25, 2008, with the remainder of $60.0 million made available when the P&T transaction completes. The Revolving Line will mature three years from the financing closing date.

The total reforestation liability declined by $4.0 million as a result of reduced logging activities in 2007.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which encompass letters of credit and surety performance bonds. These are more fully described in Note 7(a) and Note 14(e) to the Consolidated Financial Statements. At December 31, 2007, the total of such instruments aggregated $11.7 million (2006 - $11.1 million). Off-balance sheet arrangements have not had, and are not reasonably likely to

have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Summary of Contractual Obligations

The payments due in respect of contractual and legal obligations may be summarized as follows:

		Payments due by period			
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
	(millions of dollars)				
Reforestation liability	16.4	4.6	4.2	4.3	3.3
Long-term debt	34.7	-	34.7	-	-
Other long-term liabilities	13.6	4.8	2.7	1.0	5.1
Operating leases and contractual commitments	48.0	31.2	9.5	5.2	2.1
Total contractual obligations	112.7	40.6	51.1	10.5	10.5

Related Party Transactions

Lumber sales to an affiliate of a significant shareholder amounted to $0.5 million (2006 - $2.9 million). Shipping services provided by Seaboard Shipping Company Limited totaled $8.0 million (2006 - $8.9 million). These transactions were conducted on a normal commercial basis, including terms and prices and did not result in any ongoing contractual or other commitments.

Summary of Issuance of Shares

The only major issuance of shares over the last five years, excluding those shares issued on exercised employee options, was in 2003 when 12,900,000 shares were issued for net proceeds of $72.2 million to pay down bank indebtedness.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars except share and per share amounts)							
Sales – Lumber	70.7	93.2	143.0	127.5	120.5	153.9	173.5	177.7
– Logs	35.6	30.3	33.2	19.4	32.6	31.4	22.0	17.2
– Wood chips and other by-products	7.2	10.0	17.1	16.0	12.1	11.3	9.3	9.1
– Other	1.9	2.0	2.1	1.7	9.3	12.6	19.7	12.2
Total Sales	115.4	135.5	195.4	164.6	174.5	209.2	224.5	216.2
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	(15.3)	(4.6)	(3.5)	(1.8)	(2.4)	-	8.3	8.5
Operating earnings (loss)	(15.7)	(4.6)	(4.9)	(2.1)	94.5	-	0.3	8.9
Net earnings (loss)	(8.9)	(1.6)	(3.4)	0.6	77.2	1.6	8.0	8.7
Net earnings (loss) per share – basic	(0.19)	(0.03)	(0.07)	0.01	1.60	0.03	0.17	0.18
– diluted	(0.19)	(0.03)	(0.07)	0.01	1.58	0.03	0.16	0.18
EBITDA[3]	(4.6)	8.9	14.5	13.0	115.0	14.5	33.7	22.6
Cash flow from operations per share[1]	(0.06)	0.10	0.12	0.37	1.82	0.29	0.40	0.44
Shares outstanding – end of period (millions)[2]	47.1	47.1	47.6	47.8	48.1	48.3	48.4	48.7
– weighted average (millions)	47.1	47.4	47.8	48.0	48.2	48.4	48.6	48.7
Adjusted EBITDA[3]	(4.7)	7.2	12.6	10.8	11.5	13.9	23.6	19.7

1 Cash generated from operations before taking account of changes in operating working capital.
2 As at February 6, 2008, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,089,076 Class B Common shares – 1,015,779, Total – 47,104,855.
3 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and asset write-downs. The Company discloses EBITDA as it is a measure used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for U.S. duty refunds and other income. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars)							
Net earnings (loss)	(8.9)	(1.6)	(3.4)	0.6	77.2	1.6	8.0	8.7
Add: Income taxes (recovery)	(7.1)	(1.8)	(4.5)	(0.3)	38.5	(1.3)	2.1	3.0
Interest expense	0.2	(0.1)	(0.5)	(0.9)	0.5	0.9	1.0	1.0
Interest income on U.S. duty refund, net of special charge	-	-	-	-	(12.7)	-	-	-
Depletion and amortization	10.7	11.7	16.2	12.2	13.6	13.4	14.6	10.4
Other foreign exchange (gains) losses	0.2	0.7	5.3	1.1	(2.1)	-	-	(0.2)
Restructuring costs, asset write-downs and other	0.3	-	1.4	0.3	-	-	8.0	(0.4)
EBITDA	(4.6)	8.9	14.5	13.0	115.0	14.5	33.7	22.6
Deduct:								
U.S. duty refunds, net	-	-	-	-	96.9	-	-	-
Other income	0.2	1.7	1.9	2.2	6.6	0.6	10.1	2.8
Adjusted EBITDA	(4.7)	7.2	12.6	10.8	11.5	13.9	23.6	19.7

Volume and Price Statistics

		2007				2006			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber sales	(million fbm)	161	196	270	244	225	299	319	329
Lumber production[1]	(million fbm)	150	187	269	249	222	292	326	325
Log sales[2]	(thousand cubic metres)	382	315	319	207	381	358	229	222
Log production[2]	(thousand cubic metres)	373	401	626	366	616	707	667	391
Average selling price – lumber[3]	($/thousand fbm)	$441	$476	$530	$522	$534	$515	$545	$540
Average selling price – logs[2]	($/cubic metre)	$91	$95	$101	$91	$85	$87	$95	$77
Average selling price – pulp chips	($/thousand fbm)	37	$43	$54	$56	$49	$35	$26	$25

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs
2 B.C. operations
3 Gross sales before duties and export taxes

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Sawmill operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity, which increases during the spring, summer and fall.

Excluding the impact of the U.S. duty refunds in the fourth quarter of 2006, the decrease in operating earnings for the six most recent quarters related primarily to weak U.S. structural lumber markets, the stronger Canadian dollar, and to a lesser extent, higher cost of purchased logs. For the third and fourth quarters of 2007, strike action also contributed to lower reported operating earnings. All these factors contributed in lower operating rates and lumber sales realizations in the applicable periods.

Quarter 4, 2007 Compared to Quarter 4, 2006

Overview

The Company recorded a net loss of $8.9 million or $0.19 per share for the fourth quarter of 2007 compared to net earnings of $77.2 million or $1.60 per share for the fourth quarter of 2006. The results for the fourth quarter of 2006 included a U.S. duty refund of US$105.6 million and related interest of US$13.3 million, net of the SLA special charge of $24.4 million, which positively impacted net earnings and net earnings per share, by $72.2 million, and $1.50 per share, respectively. EBITDA and Adjusted EBITDA for the fourth quarter of 2007 were $(4.6) million and $(4.7) million, respectively, compared to $115.0 million and $11.5 million, for the comparative quarter in 2006.

The lower operating earnings for the fourth quarter of 2007 reflected weak structural lumber prices, the weaker US dollar and a 15% export tax, all of which adversely impacted sales realizations and log and lumber inventory valuations. The financial results were also negatively impacted by the USW strike action at the Company's B.C. Coastal manufacturing operations, as well as higher stumpage rates on the B.C. Coast, and lower residual chip prices. Partly offsetting these factors in the fourth quarter of 2007 were improved cedar prices, lower log costs in the Pacific Northwest and a forestry and engineering cost recovery ($3.4 million) from the Province of British Columbia ("F&E cost recovery").

Sales

Lumber shipments were down 65 million board feet, or 28.8%, for the fourth quarter of 2007 compared to the same quarter of 2006, reflecting lower operating rates in all regions resulting from the challenging structural lumber and currency markets, and the USW strike. Unit lumber sales values over the same period were down $94 per mfbm, or 17.5%, as the stronger Canadian dollar, lower structural lumber prices and a lower-value sales mix (due to the USW strike), outweighed higher cedar and Japanese hemlock prices. Compared to the fourth quarter of 2006, the Canadian dollar was up 15.8 cents, or 13.8%, relative to its U.S. counterpart, while the average RL Western SPF 2x4 2&Btr price was down US$16 per mfbm, or 6.4%.

Pulp chip and other by-product revenues for the fourth quarter of 2007 were down $5.0 million, or 41.0%, compared to the same quarter of 2006, with sales volumes down due to the decline in sawmill operating rates. Average chip prices were down $12 per mfbm, reflecting the impact on realizations from the stronger Canadian dollar coupled with oversupply in the Pacific Northwest region. Log sales were up $3.0 million, or 9.2%, with higher unit prices offsetting lower sales volumes due to the USW strike.

Other sales revenues for the three months ended December 31, 2007 were down $7.4 million, for the most part related to the Company's sale of Helifor in December 2006.

Operating Costs

Production costs for the fourth quarter of 2007 declined $39.5 million, or 25.3%, compared to the same period in 2006. For the most part, the decline was explained by lower market and strike-related log and lumber production; lumber production was down 72 million board feet, or 32.4%, while B.C. log production decreased 243,000 cubic metres, or 39.4%. Other factors contributing to the decrease in costs were lower log prices in the Pacific Northwest, as a result of weaker demand, and the F&E cost recovery in the current period, and costs associated with the Helifor operation for the comparative quarter in 2006 prior to its sale. These factors were partly offset by significantly higher B.C. Coastal stumpage rates, reflecting higher log prices.

The Canada/U.S. lumber export tax remained at 15% through the fourth quarter of 2007. Export taxes were down $1.9 million, due to a drop of 38 million board feet in shipments and lower prices.

The Company recorded a LTIC recovery of $1.0 million for the fourth quarter of 2007, reflecting a 16% decline in the Company's share price over the period (Quarter 4, 2006 – LTIC expense of $1.4 million).

Amortization and depletion expense for the fourth quarter was down $2.8 million compared to the fourth quarter of 2006, with the impact of lower operating rates more than offsetting additional amortization arising from several major capital projects completed during 2007.

Interest, Other Foreign Exchange Gain (loss), Other Income

Excluding the receipt of U.S. duty refund interest of $12.7 million received in late 2006, interest expense did not change significantly quarter-over-quarter. The Company recorded minimal other foreign exchange losses ($0.2 million) for the three months ended December 31, 2007, in contrast to a gain of $2.2 million for the fourth quarter of 2006. Other income for the quarter was down $6.4 million compared to the fourth quarter of 2006, when the Company sold its Helifor operation, remaining property at its former Fraser Mills site, and surplus logging equipment.

Income Taxes

In the fourth quarter of 2007, the Company recorded an income tax recovery of $1.2 million related to recently enacted reductions in federal income tax rates for 2008 through 2012.

Cash Flow

Cash used by the Company from operations, after changes in working capital, was $10.0 million for the fourth quarter of 2007, compared to cash generated of $148.7 million for the last quarter of 2006. The decrease was principally the result of the receipt of U.S. duty refunds and related interest in late 2006, and weaker markets, the stronger CAD$ and to a lesser extent, the USW strike, in 2007.

Capital expenditures for the fourth quarter of 2007 totaled $15.6 million (Quarter 4, 2006 - $21.1 million). Spending comprised $9.0 million on discretionary projects, the significant majority of which was on the new $100 million Adams Lake sawmill, $2.5 million on maintenance projects and $4.2 million on roads. There were no shares purchased under the Company's NCIB for the fourth quarter of 2007.

Cash and deposits at December 31, 2007 totaled $26.6 million, and included a US$8.8 million deposit held in escrow in respect of the Pope and Talbot acquisition, which is refundable should the transaction not complete. After deducting long-term debt of $34.7 (US$35.0) million, the Company ended the year with net debt of $8.1 million (December 31, 2006 - net cash of $107.8 million).

Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007. The evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

The CEO and CFO acknowledge responsibility for the design of internal control over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the most recent interim period ended December 31, 2007 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

Valuation of Accounts Receivable. Interfor regularly reviews the collectibility of its accounts receivable and records an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expenses to be recorded. Although Interfor has not experienced any significant bad debt expenses in prior periods, declines in the economy could result in collectibility concerns. Accounts receivable balances for individual customers could potentially be material at any given time.

Valuation of Inventories. Interfor values its lumber inventories at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom or sort basis. Other inventories consist primarily of supplies and are recorded at the lower of cost and replacement cost. The unit net realizable value for lumber and Coastal log inventories is determined by a reference to the average net sales by specific product in the periods immediately

following and preceding the reporting date. The unit realizable value for Interior and U.S. log inventories is determined by reference to the value of the projected lumber outturn. The unit cost for lumber is based on a three month moving average actual cost, lagged by one month, and for logs is based on a twelve month moving average actual cost, lagged by one month, both adjusted for unusual items. Instances where net realizable value is lower than cost result in a charge to operating earnings in the period. Downward movements in commodity prices could result in a material write-down of inventory at any given time.

Recoverability of Property, Plant and Equipment, Timber and Logging Roads. Interfor's assessment of recoverability of property, plant and equipment, timber and logging roads is made with reference to projections of future cash flows to be generated by its operations. These projections necessitate the estimation of sales and production volumes, future commodity pricing, operating costs, foreign currency exchange rates, duties and other factors. There is a high degree of uncertainty in such estimations, and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets could not be recovered, which could necessitate a material charge against operating earnings.

Reforestation and Other Forestry-related Liabilities. Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated cost of reforestation as the timber is cut, and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liability could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

The Company also has a legal obligation to deactivate certain roads constructed and used to access timber once that access is no longer required. Accordingly, Interfor also accrues the cost of road deactivation as the related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liability could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Environmental Obligations. Environmental expenditures that relate to an existing condition caused by past operations are charged as current production costs once existence of a liability and costs of rehabilitation efforts can be reasonably determined. Interfor engages independent third party experts to assist in determining the existence of environmental liabilities, appropriate prescriptions for treatment and related costs. Estimates of environmental obligations could be materially impacted by a number of factors including incorrect or incomplete problem definition and identification of treatments, or inaccurate cost projections. Incorrect estimates could result in a material charge against operating earnings.

Pension Benefits. Interfor maintains defined contribution plans available to all salaried employees and U.S. hourly employees and a defined benefit plan available only to B.C. Interior non-unionized hourly employees. The Company retains independent actuarial consultants to value its defined pension benefit obligations and plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations and expected rates of return on plan assets to be used to fund obligations. Actual experience can vary materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

Income Taxes. The Company's provision for income taxes, both current and future, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for federal, provincial and foreign taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the

resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Future income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

NEW ACCOUNTING POLICIES AND ACCOUNTING POLICY CHANGES

On December 1, 2006, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued four new accounting standards, Handbook Section 1535, *Capital Disclosures*, Handbook Section 3031, *Inventories*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards will be applicable to the Company for annual or interim accounting periods beginning on January 1, 2008.

Section 1535 specifies the disclosure of the Company's objectives, policies and processes for managing capital, including a description of what components of liabilities and shareholders' equity the Company defines as capital and their balances; and the nature of any externally imposed capital restrictions, how those are managed, and the consequence of any non-compliance, if any.

Section 3031 provides significantly more guidance of the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory writedowns.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks.

The Company is currently evaluating the implications of adopting these standards.

RISKS AND UNCERTAINTIES

Pricing

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States, Canada and Japan), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products.

Based on 2007 levels of operations, a $10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	$10 increase per thousand fbm	$5.7 million increase in net income
Chips	$10 increase per unit[1]	$2.9 million increase in net income

1 Interfor sells chips in either volumetric units (VU's or GPU's - B.C. Coastal operations) or bone dry units (BDU's - B.C. Interior and Pacific Northwest operations).

Competition

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets

where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number are, in certain product lines, lower cost producers than Interfor.

Factors which affect the Company's competitive position include:

- the foreign exchange rate;
- the cost of labour;
- the costs of harvesting or purchasing logs;
- the quality of its products and customer service;
- the cost of export taxes payable on sales to the U.S.; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

If the Company is unable to successfully compete on a global basis, its financial condition could suffer.

Availability of Log Supply

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian mills generally purchase less than 50% of their log requirements either through long-term trade and purchase agreements or on the open market. The Company relies on 100% purchased wood for its U.S. based mills. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, Interfor must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. Interfor expects to fund its ongoing road development through the cash generated from operations and through utilization of its existing bank facilities.

Use of Financial and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts are the Company's bankers and, hence, the risk of credit loss on the instruments is mitigated.

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 70% of their lumber into export markets, with the majority of these sales denominated in foreign currency, predominantly US$ and a small amount of Japanese Yen. While the Canadian operations also incur some US$ denominated expenses, primarily for ocean freight, and other transportation and equipment operating leases, the majority of its expenses are incurred in CAD$.

An increase in the value of the CAD$ relative to the US$ would reduce the amount of revenue in CAD$ realized by the Company from lumber sales made in US$. This would reduce the Company's operating margin and the cash flow available to fund operations. As a result, any such increase in the value of the CAD$ relative to the US$ could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company actively manages its currency exchange risk in fluctuations in US$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. At December 31, 2007 the Company had outstanding obligations to sell a maximum of US$6.0 million at an average rate of CAD$1.00 per US$1.00 and ¥120 million at an average rate of ¥107.68 per CAD$1.00, using a combination of forward and option contracts. All foreign currency gains or losses to December 31, 2007 have been recognized in the consolidated statement of operations.

Based on the Company's net exposure to foreign currencies in 2007 and U.S. dollar denominated cash held in deposits and short term investments at year end and US$ denominated debt and related financial instruments, the sensitivity of Interfor's net earnings is as follows:

U.S. Dollar	$0.01 increase vs. CAD$	$0.8 million increase in net income
Japanese Yen	1¥ increase vs. CAD$	$0.1 million increase in net income

Interfor's U.S. operations produce and sell products almost exclusively for the U.S. market. All revenues and expenses are denominated in U.S. dollars. All foreign currency denominated assets and liabilities of the self sustaining operations are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates for the period. Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gain or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains (losses) thereon in Accumulated Other Comprehensive Income ("AOCI") are reclassified to the Statement of Operations.

The Company recorded a $27.5 million unrealized foreign exchange loss on translation of its self sustaining operations in 2007 (2006 - $0.0 million) to other comprehensive income.

Long-term obligations denominated in foreign currencies were designated as hedges of investments in self-sustaining foreign operations until April 1, 2007, at which time the Company terminated the designation of the hedging relationship and discontinued its hedge accounting. Previously recognized unrealized foreign exchange gains as a result of applying hedge accounting totaled $5.5 million and continue to be recorded in AOCI. Unrealized foreign exchange gains arising subsequent to termination of the designation of the hedge relationship totaled $5.7 million and were recorded in Other foreign exchange gain (loss) in the Statement of Operations.

Cost of Debt Financing and Sensitivity

As at December 31, 2007 Interfor had drawn a total of US$35.0 million of floating rate debt under its term and operating credit facilities.

The Company's operating and term credit facilities bear interest at the bank prime rate plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances for CAD$ loans or at LIBOR for US$ loans. The lines of credit are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

During September 2005, the Company entered into a cross currency interest rate swap. The Company has agreed to receive US$20,000,000 at maturity on September 1, 2009 in exchange for payment of CAD$23,530,000 (an exchange rate of 1.1765). In addition, during the term of the swap the Company will pay an amount based on annual interest of 5.84% on the CAD$23,530,000 and will receive 90 day LIBOR plus a spread of 200 basis points on the US$20,000,000. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009 and has been marked to market with all gains or losses on the swap recognized in the Statement of Operations.

Based on the Company's average debt level during 2007, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.1 million in net earnings.

Forest Policy Changes in British Columbia

Over the last several years the Crown has initiated a number of changes to forest policy that will encourage a more viable and competitive forest industry in B.C. Policy changes in progress include a results based Forest Practices Code; First Nation tenure opportunities and revenue sharing; market based timber pricing; the elimination of minimum cut control regulations; the elimination of existing timber processing regulations; and the elimination of restrictions limiting the transfer and subdivision of existing licenses. The Crown also implemented the Forestry Revitalization Plan ("FRP") that included a reallocation of tenure that reduced the AAC of major licence holders, including Interfor, by 20%. The FRP stated that approximately half of this volume would be redistributed to woodlots, community forests, and First Nations, and the other half would be available for public auction under the Timber Sales Program.

The Crown has stated that fair compensation will be provided for the taking of AAC that recognizes both the benefits and costs of reform. Interfor negotiated an agreement with the Crown to complete a comprehensive settlement for compensation in March 2005. The majority of the compensation settlement has been received.

New policy changes are expected from the Crown while others remain to be fully implemented. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

Allowable Annual Cut ("AAC")

Interfor holds cutting rights in B.C. that represent an AAC of approximately of 2.6 million cubic metres. Of this amount 2.3 million cubic metres is in the form of replaceable tenures. The remaining portion is held in non-replaceable tenures (Timber licences and non-replaceable Forest licences) that will expire over time.

The AAC is regulated by the Ministry of Forests and Range (MoFR) and subject to periodic reviews that assess and then make determinations to set harvesting rates for each tenure. Many factors affect the AAC such as timber inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

Interfor's AAC in the Central Coast and North Coast regions has been reduced to take into account the impact of the new protected area additions. A further reduction is anticipated to address future impacts associated with the implementation of Ecosystem Based Management ("EBM") practices. However, the amount of impact on Interfor's AAC is not known at this time, as timber supply analyses have not yet been determined by government. Reductions in Interfor's AAC from new protected areas are subject to compensation, once these areas have been formally removed. There can be no assurance that the amounts of such reductions, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Interfor's B.C. Interior operation has had a temporary increase in their AAC resulting from the acquisition of new non-replaceable cutting rights directed at beetle damaged and killed stands in the Kamloops and 100 Mile Forest Districts. The amount of timber available for harvest in the B.C. Southern Interior is expected to remain high for the next five to ten years as a consequence of an accelerated harvest to address the impacts from the pine beetle epidemic. The longer term impact of the beetle is expected to reduce the overall timber supply once the surplus of dead pine is no longer useable. The amount and duration of the increase and subsequent decline cannot be determined at this time and will vary by location.

Aboriginal Issues

In 1997, the Supreme Court of Canada, in the Delgamuukw decision, confirmed the continued existence of aboriginal title and rights in areas of British Columbia, which are not covered by treaties. Accordingly, aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Interfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve aboriginal rights and

title claims. In addition, the governments have entered, and may continue to enter, into interim measures agreements with aboriginal groups. Any interim measures agreements or settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to resources on public lands and rights of self government. The impact of aboriginal claims or treaty settlements on Interfor's forest tenures or the amounts of compensation to Interfor, if any, cannot be estimated at this time.

The duty to consult and accommodate aboriginal groups has become a central issue facing governments and the forest industry. While the courts have established that the Crown has a duty to consult and accommodate aboriginal groups, there was uncertainty as to how and to what this requirement will be applied. Uncertainty also existed in what responsibility a company may have as a result of the Crown's failure to carry out its duties. In a Supreme Court of Canada's decision on November 18, 2004, it was made clear that third parties (tenure holders) are not responsible for consultation and accommodation of aboriginal interests. It is the Crown's obligation to consult and, where appropriate, accommodate aboriginal interests. The questions of responsibility and appropriateness of balancing interests will continue to evolve as the courts provide greater clarity to these complex issues. In addition the Province has initiated a New Relationship process with First Nation leaders that are intended to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement.

Stumpage Fees

Stumpage is the fee the Crown charges companies to harvest timber from Crown land. Prior to February 29, 2004, the amount of stumpage paid for each cubic metre of wood harvested was based on a target rate set by government. Stumpage payments for a harvesting area took into consideration specific operating conditions, timber quality and administrative procedures.

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The move to a more open and competitive market pricing system ("MPS") for timber and logs for the Coastal and Interior forest sector have been implemented by the British Columbia government. The primary variable in MPS is log pricing established through open market bidding for standing timber. In addition to bid prices, there are a number of operational and administrative factors that go into determining an individual stumpage rate for each cutting permit. Periodic changes in the British Columbia government's administrative policy can affect stumpage costs and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

Environment

Interfor has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of its environmental performance. Interfor may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on Interfor's financial condition and results of operations.

Labour Disruptions

The Company's Canadian B.C. Coastal sawmill employees are members of the USW. A collective agreement with the USW expires on June 14, 2010. Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on the Company's business. The Company believes that its current labour relations are stable and does not anticipate any related disruptions to its operations in the foreseeable future.

OUTLOOK

With a further decline in U.S. housing starts forecast for 2008, and no immediate end to the sub-prime mortgage market crisis in sight, the Company expects North American structural lumber market

conditions to remain very challenging throughout 2008, with little prospect of any meaningful price recovery on the horizon. Export taxes on sales to the U.S. are expected to remain at 15% through 2008.

Prices for the Company's cedar products are expected to be firm through the first quarter of 2008, reflecting steady demand and tight supply. For the balance of the year, offshore and North American cedar markets are projected to stay relatively stable, although this outlook may change depending on the extent of the slowdown of the U.S. economy. In Japan, the current supply shortage, which is offsetting lower demand, should help to keep prices reasonably stable through the first quarter. If the current weakness in the local housing market persists, prices could soften later in the year.

With respect to currency, the outlook for the CAD$ versus the US$ and Yen for 2008 is very difficult to predict, given the volatility of the currency markets witnessed in 2007.

Residual chip prices have resumed their upward trend in early 2008, reflecting continued high demand from pulp producers and reduced supply. Stumpage rates on the B.C. Coast for the first quarter of 2008 are expected to remain at similar levels to those for the last quarter of 2007.

With the prospect of a difficult year ahead, the Company will be maintaining a very tight control over cash, while remaining alert to selective growth opportunities in regions and products with attractive fundamentals. The rebuild of the Adams Lake sawmill and the P&T acquisition are the only major capital investments currently approved for 2008.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations can be found on its website at www.interfor.com and in the Annual Information Form and on SEDAR at www.sedar.com. Interfor's trading symbol on the Toronto Stock Exchange is IFP.A.

INTERFOR

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of International Forest Products Limited (Interfor) is responsible for preparing the accompanying consolidated financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and are necessarily based in part on management's best estimates and judgements. The financial information included elsewhere (in the Statutory Reports) is consistent with that in the consolidated financial statements.

Interfor maintains a system of internal accounting control which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report. The Company's Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP and their report follows.

Duncan K. Davies
President and Chief Executive Officer

John A. Horning
Senior Vice President, Chief Financial Officer and Corporate Secretary

February 1, 2008

INTERFOR

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2007 and 2006 and the consolidated statements of operations, retained earnings, cash flows, comprehensive income (loss) and accumulated other comprehensive income (loss) for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP, Chartered Accountants

Vancouver, Canada

February 1, 2008

International Forest Products Limited

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)
December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash	$ 17,795	$ 149,171
Deposit (note 20)	8,761	-
Accounts receivable	37,172	50,748
Income taxes recoverable	8,838	-
Inventories (note 3)	76,429	81,150
Prepaid expenses	6,267	4,405
Future income taxes (note 13)	3,083	4,179
	158,345	289,653
Investments and other assets (note 4)	9,842	13,360
Property, plant and equipment (note 5)	300,150	309,744
Timber and logging roads (note 6)	55,050	47,597
Goodwill and other intangible assets	13,078	13,137
Future income taxes (note 13)	7,000	445
Long-lived assets held for sale (note 2)	3,239	1,210
	$ 546,704	$ 675,146
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7(a))	$ -	$ 582
Accounts payable and accrued liabilities	49,999	95,370
Income taxes payable	-	27,439
Future income taxes payable (note 13)	-	364
	49,999	123,755
Reforestation liability, net of current portion (note 9)	11,874	13,210
Long-term debt (note 7(b))	34,696	40,789
Other long-term liabilities (note 8)	8,859	8,602
Future income taxes (note 13)	13,080	10,788
Shareholders' equity:		
Share capital (note 10):		
Issued and fully paid:		
Class A subordinate voting shares	284,444	291,086
Class B common shares	4,080	4,080
Contributed surplus (note 10(a))	5,408	7,720
Accumulated other comprehensive income (loss)	(33,892)	(6,361)
Retained earnings	168,156	181,477
	428,196	478,002
	$ 546,704	$ 675,146

Commitments and contingencies (note 14)
Subsequent events (note 21)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

E.L. Sauder, Director

H.C. Kalke, Director

International Forest Products Limited
Consolidated Statements of Operations
(Expressed in thousands of Canadian dollars, except earnings per share amounts)
Years ended December 31, 2007 and 2006

	2007	2006
Sales	$ 611,008	$ 824,439
Costs and expenses:		
Production	560,348	722,275
Selling and administration	16,776	17,806
Long term incentive compensation (recovery)	(476)	595
U.S. countervailing and antidumping duty deposits (note 14(d))	-	14,725
Export taxes (note 14(d))	8,755	2,683
Amortization of plant and equipment	30,129	30,073
Depletion and amortization of timber, roads and other	20,726	21,902
	636,258	810,059
Operating earnings (loss) before U.S. duty refund, restructuring costs and write-downs of plant and equipment	(25,250)	14,380
U.S. duty refund, net (note 14(d))	-	96,928
Restructuring costs and write-downs of plant and equipment (note 12)	(1,975)	(7,577)
Operating earnings (loss)	(27,225)	103,731
Other earnings (expenses):		
Interest expense on long-term debt	(2,835)	(3,174)
Other interest income (expense), net	4,163	(241)
Interest income on U.S. duty refunds, net of special charge (note 14(d))	-	12,684
Other foreign exchange gain (loss)	(7,308)	2,317
Other income (note 11)	5,983	20,163
Equity in earnings of investee companies (note 4)	218	2,254
	221	34,003
Earnings (loss) before income taxes	(27,004)	137,734
Income taxes (note 13):		
Current (recovery)	(9,570)	28,100
Future (recovery)	(4,113)	14,100
	(13,683)	42,200
Net earnings (loss)	$ (13,321)	$ 95,534
Net earnings (loss) per share (note 15):		
Basic	$ (0.28)	$ 1.97
Diluted	$ (0.28)	$ 1.95

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings
(Expressed in thousands of Canadian dollars)
Years ended December 31, 2007 and 2006

	2007	2006
Retained earnings, beginning of year	$ 181,477	$ 85,943
Net earnings (loss)	(13,321)	95,534
Retained earnings, end of year	$ 168,156	$ 181,477

See accompanying notes to consolidated financial statements.

International Forest Products Limited
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)
Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (13,321)	$ 95,534
Items not involving cash:		
Amortization of plant and equipment	30,129	30,073
Depletion and amortization of timber, roads and other	20,726	21,902
Future income taxes	(4,113)	14,100
Other assets	1,030	277
Reforestation liability	(1,336)	(2,032)
Other long-term liabilities	257	56
Share of earnings net (in excess) of cash distributions of investee company (note 4)	4,151	(2,254)
Write-down of plant and equipment (note 12)	-	5,868
Foreign exchange loss (gain) on translation of long term debt	(6,094)	84
Other (note 11)	(6,117)	(20,542)
	25,312	143,066
Changes in non-cash operating working capital:		
Accounts receivable (note 19(d))	12,438	(15,037)
Inventories	2,791	13,603
Prepaid expenses	(2,289)	2,082
Accounts payable and accrued liabilities	(46,839)	14,370
Income taxes	(36,399)	28,316
	(44,986)	186,400
Investments:		
Additions to property, plant and equipment	(44,726)	(71,909)
Additions to logging roads and timber	(28,340)	(18,694)
Additions to deferred start up costs	(959)	-
Proceeds on disposal of property, plant and equipment	8,256	49,234
Deposit held in escrow for acquisition (note 20)	(8,761)	-
Investments and other assets	(2,010)	(2,453)
	(76,540)	(43,822)
Financing:		
Repurchase of share capital (note 10(a))	(9,846)	(4,739)
Issuance of share capital, net of expenses (note 10(a))	892	676
Increase (decrease) in bank indebtedness	(582)	(7,471)
	(9,536)	(11,534)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(314)	(934)
Increase (decrease) in cash	(131,376)	130,110
Cash, beginning of year	149,171	19,061
Cash, end of year	$ 17,795	$ 149,171
Supplementary disclosures:		
Cash interest paid (received), net	$ (1,328)	$ (9,269)
Cash income taxes paid (received)	26,977	(701)

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2007 and 2006

	2007	2006
Net earnings (loss)	$ (13,321)	$ 95,534
Other comprehensive income (loss), net of income taxes (recovery):		
Net change in unrealized foreign currency translation gains (losses) on translation of self-sustaining foreign subsidiaries	(27,531)	10
Other comprehensive income (loss)	(27,531)	10
Comprehensive income (loss)	$ (40,852)	$ 95,544

See accompanying notes to consolidated financial statements.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2007 and 2006

	2007	2006
Accumulated other comprehensive income (loss), beginning of year	$ (6,361)	$ (6,371)
Other comprehensive income (loss)	(27,531)	10
Accumulated other comprehensive income (loss), end of year	$ (33,892)	$ (6,361)

See accompanying notes to consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

1. Significant accounting policies and change in accounting policies:

International Forest Products Limited (the "Company") is incorporated under the *Business Corporations Act* (British Columbia) and its primary business activity is the production of wood products in the Pacific Northwest and Interior of British Columbia for sale to markets around the world.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries from their respective dates of acquisition or incorporation. All intercompany balances and transactions have been eliminated on consolidation.

(b) Adoption of changes in accounting policies:

Commencing January 1, 2007, the Company adopted five new Canadian Institute of Chartered Accountants ("CICA") accounting standards: (i) Handbook Section 1530, *Comprehensive Income,* (ii) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, (iii) Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, (iv) Handbook Section 3865, *Hedges*, and (v) Handbook Section 1506, *Accounting Changes*. The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period as a result of adopting the accounting changes, other than to classify unrealized foreign currency translation gains or losses on net investments in self-sustaining foreign operations in accumulated other comprehensive income (loss) within Shareholders' Equity. Interfor has determined that the adoption of these standards has no cumulative prior period financial effect on its opening fiscal 2007 retained earnings. The effect of the adoption of these standards is described in the following table:

	As at Dec. 31, 2006	Adjustment upon adoption of new standards	As at Jan. 1, 2007
Shareholders' Equity			
Cumulative translation adjustment	$ (6,361)	$ 6,361	$ -
Accumulated comprehensive income (loss)	-	(6,361)	(6,361)

(i) Comprehensive Income:

Section 1530 introduces the term Comprehensive income ("CI") which is composed of the Company's net income and other comprehensive income ("OCI"). OCI includes changes in unrealized gains and losses on available-for-sale financial assets, unrealized foreign currency translation gains or losses on the net investment in foreign self-sustaining foreign operations and changes in the fair value of derivative instruments designated as cash flow hedges, all net of income taxes. As a result of adopting these standards, a new Statement of Comprehensive Income now forms part of the Company's consolidated financial statements and discloses the current period net earnings (loss) and OCI. Cumulative changes in OCI are included in Accumulated other comprehensive income (AOCI), which is presented as a new category of Shareholders' Equity in the Balance Sheet.

1. Significant accounting policies and change in accounting policies (continued):

(b) Adoption of changes in accounting policies (continued):

(ii) Financial Instruments – Recognition and Measurement:

Section 3855 requires all financial instruments to be classified as one of the following: held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial instruments held-for-trading are measured at fair value with changes in those fair values recognized in the Statement of Operations. Financial instruments held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost. Available-for-sale financial instrument are measured at fair value, with unrealized gains and losses recorded in OCI until realized, at which time they will be recorded in the Statement of Operations. Available-for-sale equity securities which do not have a quoted market price continue to be recorded at cost.

The adoption of this new standard had no effect on the consolidated financial statements of the Company.

(iii) Financial Instruments – Disclosure and Presentation:

Section 3861 sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revised the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial instruments that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provide several new requirements for disclosures about fair value (see note 19).

Where transaction costs are related to a financial instrument, the transaction costs will be netted against that financial instrument and amortized on the same basis as the related financial instrument. Transaction costs which arise on the granting of a credit line may not have a balance against which to net, as in the case of an operating line which is unutilized. In this case the transaction cost is included in investments and other assets and amortized on a straight line basis over the life of the credit facility to which it relates.

(iv) Hedges:

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for fair value hedges, cash flow hedges, and hedges of the net investment in a self-sustaining foreign operation. In hedge accounting, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income, when appropriate to do so. The change in fair value of the hedged item, to the extent the underlying hedging relationship is effective, is offset by changes in the fair value of the derivative. The effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in net income. The amounts recognized in OCI will be reclassified to net income in the periods in which net income is affected by the variability of the hedged item. For a net investment hedge, these amounts are recognized in income when the corresponding cumulative translation adjustments from the self-sustaining foreign operation are recognized in income as a result of a dilution or sale of the net investment, or reduction in equity of the foreign operation as a result of dividend distributions.

1. Significant accounting policies and change in accounting policies (continued):

(b) Adoption of changes in accounting policies (continued):

(iv) Hedges (continued):

The Company has chosen not to designate its derivative financial instruments, including interest rate swaps and forward foreign exchange contracts and options, as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the Balance Sheet at fair value with changes in fair value being recorded in the Statement of Operations. The adoption of this new standard for fair value and cash flow hedges has had no effect on the consolidated financial statements of the Company.

The adoption of this new standard for net investment hedges has had no financial impact on the consolidated financial statements of the Company. The unrealized foreign currency adjustments arising from translation of self-sustaining foreign operations were previously reported separately as a cumulative translation adjustment within Shareholders' Equity in the Balance Sheet, and now form part of ACOI.

(v) Accounting Changes:

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively, unless doing so is impracticable, changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this standard cannot be determined until such time as the Company makes a change in accounting policy other than one resulting from implementation of new CICA Handbook standards.

(c) Cash

Cash consists of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

(d) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are in boom form, or in aggregate on a species and sort basis where the logs no longer exist in boom form. Other inventories consist primarily of supplies and are recorded at lower of cost and replacement cost.

(e) Investments and advances:

Investments over which the Company is able to exert significant influence are accounted for on the equity basis. Advances are accounted for at amortized cost.

(f) Property, plant and equipment and timber and logging roads:

Property, plant and equipment and timber and logging roads are recorded at cost. Amortization on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 25%) based on the estimated useful lives of the assets. Timber licence depletion and road amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization rates are reviewed periodically to ensure they are aligned with estimates of remaining economic useful lives of the associated capital assets.

1. Significant accounting policies and change in accounting policies (continued):

(g) Deferred start-up costs:

Start-up costs on major plant construction are deferred to the extent these costs meet the criteria under CICA Emerging Issues Committee Abstract 27 and the site reaches sustainable productions levels which are defined as the earlier of:

(i) Seventy percent of production capacity for two consecutive months; or

(ii) Six months

and to a maximum of twenty percent of the total project cost.

Startup-costs are amortized over five years on a straight-line basis and are included on the balance sheet in property, plant and equipment.

(h) Reforestation liability:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur. These costs are included in the cost of current production.

(i) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded on an undiscounted basis when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, recoverability of assets and rates for depletion and amortization. Actual results could differ from those estimates.

(k) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. When the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

(l) Share-based compensation:

The Company has share option plans and other share-based compensation plans for directors, officers and certain other eligible employees.

1. Significant accounting policies and change in accounting policies (continued):

(l) Share-based compensation (continued):

The Company follows the fair value method of accounting for share options granted to directors, officers and employees. Under the fair value method, compensation expense is recorded for share options over the vesting period based on the estimated fair market value of the option at the date of grant.

For other share based compensation plans which are based on changes in the value of the Company's share price, the Company records an expense (recovery) for changes in the estimated compensation over the vesting period based on the quoted market price of the Company's shares over the strike price of the grant.

(m) Sales recognition and presentation policies:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded on a gross basis, before freight, wharfage and handling costs, and countervailing and antidumping duties and export taxes.

(n) Employee future benefits:

The estimated costs for pensions and other post-retirement benefits provided to employees by the Company is accrued using actuarial techniques and assumptions, including an appropriate discount rate, during the employees' active years of service.

Future salary levels and cost escalation do not affect the amount of employee future benefits and therefore the accumulated benefit method has been used to determine the accrued benefit obligation.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains and losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Where, as of the beginning of the year, the unamortized net actuarial gain or loss exceeds ten percent of the greater of the benefit obligation and the fair value of the plan assets, the excess is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is ten years for each of 2007 and 2006.

(o) Hedging relationships and accounting for derivative financial instruments:

The Company uses derivative financial instruments for hedging purposes in the management of foreign currency and interest rate exposures. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis to ensure the derivatives are effective in offsetting changes in fair values or cash flows of hedged items. Foreign exchange exposure to foreign currency receipts and related receivables, primarily U.S. currency, is managed through the use of foreign exchange forward contracts and options.

Exposure to interest rates on long-term debt is managed through the use of an interest rate swap. This swap agreement requires the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Foreign exchange adjustments accounted for under the interest rate swap agreement is recognized in other foreign exchange gain (loss) on the statement of operations.

The Company has chosen to not designate its derivative forward foreign exchange contracts, options and interest rate swap as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

1. Significant accounting policies and change in accounting policies (continued):

(p) Foreign currency translation:

Foreign currency monetary assets and liabilities of the integrated foreign operations of the Company and all foreign currency denominated assets and liabilities of its self-sustaining foreign operations are translated into Canadian Dollars at exchange rates in effect at the balance sheet date. Foreign currency non-monetary assets and liabilities of the Company's integrated operations are translated into Canadian dollars at the historical exchange rate in effect when the related asset was acquired or obligation incurred.

Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gain or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains (losses) thereon in AOCI are reclassified to the Statement of Operations.

Translation gains and losses arising in the Company's integrated foreign operations, if any, are included in operating earnings or other foreign exchange gain (loss) in the Statement of Operations, depending upon what the types of activity gave rise to the item translated.

Revenues and expenses denominated in foreign currencies are translated at average rates for the period with the exception of depreciation and amortization of foreign currency denominated long term assets of the Company's integrated foreign operations, which are translated at historical exchange rates.

Long-term obligations denominated in foreign currencies were designated as a hedge of investments in self-sustaining foreign operations until April 1, 2007, at which time the Company terminated the designation of the hedging relationship and discontinued its use of hedge accounting. Previously recognized unrealized foreign exchange gains as a result of applying hedge accounting continue to be recorded in Accumulated Other Comprehensive Income. Unrealized foreign exchange gains arising subsequent to termination of the designation of the hedge relationship have been recorded in Other foreign exchange gain (loss) in the Statement of Operations.

(q) Net earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed using the treasury stock method.

(r) Asset retirement obligations:

Asset retirement obligations are recognized at the fair value in the period in which the legal obligation was incurred, with fair value of a liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

(s) Impairment of long-lived assets:

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company then determines if an impairment loss exists, by determining if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If an impairment loss exists, the amount of the loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

(t) Comparative figures:

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

1. Significant accounting policies and change in accounting policies (continued):

(u) Future accounting changes:

On December 1, 2006, the CICA issued four new accounting standards, Handbook Section 1535, *Capital Disclosures*, Handbook Section 3031, *Inventories*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards will be relevant to the Company's consolidated financial statements subsequent to December 31, 2007.

Section 1535 specifies the disclosure of the Company's objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders' equity the Company defines as capital, and their balances; and the nature of any externally imposed capital restrictions, how those are managed, and the consequence of any non-compliance, if any.

Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory writedowns.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks.

The Company is currently evaluating the implications of the adoption of these new Standards.

2. Long-lived assets held for sale:

In 2007 the Company developed a formal plan to dispose of certain surplus properties over the next year. As at December 31, 2007, the Company has classified these assets as assets held for sale. Surplus logging equipment classified as held for sale at December 31, 2006, was sold in 2007.

3. Inventories:

	2007	2006
Logs	$ 53,631	$ 56,097
Lumber	18,588	19,782
Other	4,210	5,271
	$ 76,429	$ 81,150

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

4. Investments and other assets:

	2007	2006
Seaboard Shipping Company Limited	$ 3,287	$ 7,438
Other investments	1,582	2,656
Pension asset (note 16(b))	4,875	3,089
Deferred financing fee, net of accumulated amortization	98	177
	$ 9,842	$ 13,360

The Company is the holder of 60% of the outstanding common shares of Seaboard Shipping Company Limited ("Seaboard"). The remaining common shares are held by other British Columbia forestry companies. Seaboard operates ocean-going vessels that provide service to world ports with contractual commitments for lumber and plywood volumes, as well as other general cargo. Although the Company owns over 50% of the common shares of Seaboard, the shareholders have entered into agreements that limit the Company's ability to control Seaboard's strategic financing, investing and operating decisions. In addition, net earnings of Seaboard are distributed based on a percentage of shipments of product by the shareholders and not based on common share ownership.

The Company accounts for its investment in Seaboard using the equity method: the initial investment in Seaboard is recorded at cost and the investment is adjusted for earnings of Seaboard based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by Seaboard.

Summarized information of Seaboard is as follows:

	2007	2006
Total assets	$ 22,633	$ 20,854
Shareholders' equity	16,162	12,742
Net sales	47,868	55,195
Interfor's shipment percentage	58.0%	63.9%
Interfor's equity in earnings	$ 218	$ 1,800
Distributions received	4,369	54,354

On January 3, 2006, the Seaboard Partnership declared a distribution to its partners, of which the Company's share of $54,354,000 was received by way of setoff against an advance and promissory note payable to the Seaboard Partnership. On January 2, 2007, an additional cash distribution was made to the partners, of which the Company's share was $4,369,000. In accordance with equity accounting, the distributions were recorded as a reduction of the investment.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 45

5. Property, plant and equipment:

2007	Cost	Accumulated amortization	Net book value
Land	$ 13,880	$ -	$ 13,880
Buildings	70,995	40,937	30,058
Machinery and equipment	389,520	150,216	239,304
Automotive equipment	11,757	10,378	1,379
Deferred startup costs	5,810	2,358	3,452
Other	27,123	15,046	12,077
	$ 519,085	$ 218,935	$ 300,150
2006			
Land	$ 14,720	$ -	$ 14,720
Buildings	76,544	40,326	36,218
Machinery and equipment	358,478	126,636	231,842
Automotive equipment	14,852	12,426	2,426
Deferred startup costs	5,000	1,250	3,750
Other	42,870	22,082	20,788
	$ 512,464	$ 202,720	$ 309,744

In light of significant capital improvements and sawmill rebuilds undertaken in 2006 and early 2007, the Company performed a review of its estimates of remaining economic useful life of its plant and equipment. This resulted in a revision of amortization rates for certain operations to align with current estimates of economic useful life and designed capacity. The recalculated amortization rates have been applied on a prospective basis and did not have a material impact on amortization expense.

At December 31, 2007, machinery and equipment cost includes $19,610,000 for the construction of the Adams Lake Sawmill rebuild, which is expected to be completed by the end of 2008.

6. Timber and logging roads:

2007	Cost	Accumulated amortization	Net book value
Timber	$ 67,645	$ 29,851	$ 37,794
Roads			17,256
			$ 55,050
2006			
Timber	$ 59,343	$ 28,492	$ 30,851
Roads			16,746
			$ 47,597

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

7. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

2007	Canadian Operating Facility	U.S. Operating Facility	Total
Available line of credit	$ 40,000	$ 9,913	$ 49,913
Maximum borrowing available	40,000	9,913	49,913
Unused portion of line	35,182	9,794	44,976
Outstanding letters of credit included in line utilization	4,818	119	4,937
2006			
Available line of credit	$ 60,000	$ 17,481	$ 77,481
Maximum borrowing available	60,000	12,206	72,206
Unused portion of line	55,310	12,066	67,376
Outstanding letters of credit included in line utilization	4,690	140	4,830

The Company renewed its existing Canadian operating line of credit ("Operating Line") in 2007, reducing the maximum available operating credit to $40,000,000 (2006 - $60,000,000). The Operating Line bears interest at bank prime plus a margin depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans. Borrowings levels under the line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories. The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, and mortgage security on sawmills and charges against timber tenures. The Operating Line is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. The line matures on April 25, 2008. The Company received a financing commitment from its lenders on February 1, 2008, increasing the Operating Line (see note 21(a)).

The Company renewed its existing U.S. operating line of credit ("U.S. Line") in 2007. The terms and conditions of the line remained unchanged, except for a reduction in the maximum available operating credit to US$10,000,000 (2006 – US$15,000,000). The U.S. Line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories of the Company's subsidiary, Interfor Pacific, Inc. ("IPI"). As at December 31, 2007, the maximum borrowing available was US$10,000,000 (2006 – US$10,474,000), of which US$9,880,000 (2006 – US$10,354,000) was unused. The line utilization includes outstanding letters of credit of US$120,000 (2006 – US$120,000). The loan bears interest at U.S. bank prime or, at the Company's option, at LIBOR plus 1¼%. The line of credit is secured by the accounts receivables and inventories of IPI and is subject to certain financial covenants including a maximum ratio of total debt to total capitalization. The line matures on April 25, 2008.

(b) Long-term debt:

The Company amended its existing Canadian revolving term line of credit ("Revolving Line") in 2007 to reduce the available credit to $10,000,000 (2006 - $40,000,000), but has the ability to increase the maximum borrowing available on the Revolving Line to $100,000,000, subject to the consent of the lenders. The line matures on April 25, 2008. The Revolving Line bears interest at bank prime plus a margin depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans. The line matures on April 25, 2008. The Company received a financing commitment from its lenders on February 1, 2008, increasing the Revolving Line (see note 21(a)).

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

7. Bank indebtedness and long-term debt (continued):

(b) Long-term debt (continued):

The US dollar non-revolving term line (the "Non-Revolving Line") remains fully drawn at US$35,000,000 (2006 - US$35,000,000) and was revalued at the year-end exchange rate to CAD$34,696,000 (2006 - CAD$40,789,000). The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans and matures on September 1, 2009.

Both of the term lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, and mortgage security on sawmills and charges against timber tenures. The lines are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

Minimum principal amounts due on long-term debt within the next five years are follows:

2008	$ -
2009	34,696
2010	-
2011	-
2012	-
	$ 34,696

8. Other long-term liabilities:

	2007	2006
Road deactivation and environmental	$ 3,150	$ 2,894
Pension (note 16(e))	3,304	3,342
Long term incentive compensation	1,866	1,839
Other	539	527
	$ 8,859	$ 8,602

9. Reforestation liability:

The Company has an obligation to reforest areas harvested under various timber rights. The obligation is incurred as production occurs and the fair value of the liability for reforestation is determined with reference to the present value of estimated future cash flows required to settle the obligation.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

9. Reforestation liability (continued):

Changes in the reforestation liability for the year ended December 31 are as follows:

	2007	2006
Reforestation liability, beginning of year	$ 20,437	$ 22,548
Reforestation expense on current production	2,460	4,754
Reforestation liability addition on acquisition of timberlands	-	770
Reforestation liability reduction on disposal of timberlands	(199)	(760)
Reforestation expenditures	(6,577)	(6,290)
Accretion expense	925	1,067
Changes in estimated future reforestation expenditures	(617)	(1,652)
	$ 16,429	$ 20,437
Consisting of:		
Current portion included in accounts payable and accrued liabilities	$ 4,555	$ 7,227
Long term reforestation liability	11,874	13,210
	$ 16,429	$ 20,437

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2007 is $19,200,000 (2006 - $23,400,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at the Company's estimated credit-adjusted risk-free interest rate of 7.0%. Reforestation expense incurred due to current production and accretion expense are included in production costs for the year. Changes in the estimated future reforestation expenditures for 2006 included the reversal of $1,818,000 of the liability for reforestation obligations arising from regulatory and strategic changes to treatments for certain reforested areas.

10. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2007 and 2006 consists of:

100,000,000 Class A subordinate voting shares without par value

1,700,000 Class B common shares without par value

5,000,000 preference shares without par value

Share transactions during 2007 and 2006 were as follows:

	Number			
	Class A	Class B	Total	Amount
Balance, December 31, 2005	47,662,016	1,015,779	48,677,795	$ 298,763
Shares issued on exercise of options	149,580	-	149,580	676
Share repurchases	(691,700)	-	(691,700)	(4,273)
Balance, December 31, 2006	47,119,896	1,015,779	48,135,675	295,166
Shares issued on exercise of options	189,280	-	189,280	892
Share repurchases	(1,220,100)	-	(1,220,100)	(7,534)
Balance, December 31, 2007	46,089,076	1,015,779	47,104,855	$ 288,524

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

10. Share capital:

(a) Share transactions (continued):

The first 13-1/3¢ per share per annum of dividends to common shareholders declared are paid on the Class A shares. Any additional dividends must be declared in equal per share amounts on the Class A and B shares.

The Class B shares (carrying ten votes per share) are exchangeable into Class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the Class B shares into Class A shares, on the basis of one Class A share for one Class B share.

The Company has repurchased Class A shares through normal course issuer bids and the facilities of the Toronto Stock Exchange. During 2007 the Company acquired 1,220,100 Class A shares (2006 – 691,700) at a total cost of $9,846,000 (2006 - $4,739,000) and the shares were cancelled as purchased. The excess of the cost of the shares over the assigned value totaled $2,312,000 (2006 - $466,000) and has been charged to contributed surplus. In January, 2008 the Company commenced another share buy-back program (see note 21(b)).

Movements in contributed surplus during 2007 and 2006 were as follows:

	2007	2006
Beginning balance, contributed surplus	$ 7,720	$ 8,186
Excess of cost of shares over assigned value on shares repurchased and cancelled	(2,312)	(466)
Ending balance, contributed surplus	$ 5,408	$ 7,720

At December 31, 2006, Class A shares are reserved for possible future issuance as follows:

(i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and

(ii) 2,167,340 Class A shares are reserved for possible issuance pursuant to the share option plan.

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2007 are exercisable at prices ranging from $3.65 to $5.00 per share, being the closing market price for the shares on the dates that the options were granted. The options expire at various dates between November 24, 2008 and April 30, 2011.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

10. Share capital (continued):

(b) Share option plan (continued):

Details of the Company's share option plan for the years ended December 31, 2007 and 2006 are as follows:

	2007		2006	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,633,920	$ 4.63	1,783,500	$ 4.62
Granted	-	-	-	-
Exercised	(189,280)	4.71	(149,580)	4.52
Expired or cancelled	(34,800)	9.00	-	-
Outstanding, end of year	1,409,840	$ 4.51	1,633,920	$ 4.63
Options exercisable, year end	1,409,840	$ 4.51	1,633,920	$ 4.63

All of the options outstanding under the share option plan at December 31, 2007 are exercisable as at December 31, 2007, have a weighted average remaining life of 3.3 years and exercise prices range from $3.65 to $5.00 per share.

(c) Share Appreciation Rights Plan:

Awards under the Share Appreciation Rights Plan ("SAR Plan") have been granted to directors, officers and senior managers of the Company. Under the SAR Plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash.

	2007		2006	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,162,700	$ 5.62	1,155,420	$ 5.50
Granted	170,500	7.93	102,500	6.95
Exercised	(92,980)	4.75	(55,800)	4.96
Expired or cancelled	(13,500)	7.08	(39,420)	6.55
Outstanding, end of year	1,226,720	$ 5.99	1,162,700	$ 5.62
Units exercisable, year end	766,680	$ 5.28	599,760	$ 5.05

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

10. Share capital (continued):

(c) Share Appreciation Rights Plan (continued):

Details of units outstanding under the SAR Plan at December 31, 2007 are as follows:

	Units outstanding			Units exercisable	
Strike price	Number outstanding, December 31, 2007	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2007	Weighted average strike price
$4.33	426,160	4.1	$ 4.33	426,160	$ 4.33
$6.07-$7.30	643,560	6.3	6.60	340,520	6.48
$8.02	157,000	9.1	8.02	-	-
	1,226,720		$ 5.99	766,680	$ 5.28

The Company recorded a compensation recovery of $705,000 (2006 – expense of $142,000) for the year ended December 31, 2007. Accrued compensation payable on unexercised units totaled $732,000 (2006 - $1,781,000) at December 31, 2007.

(d) Total Shareholder Return Plan:

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan, the Company will pay compensation to the TSR Plan members if the compound annual growth rate of the Company's share price exceeds 5% per annum over a three year period. The amount of compensation payable varies with the amount of the compound annual growth rate to a maximum of 15% per annum, the member's salary and a target award amount. For the three year period which commenced in fiscal 2007, a minimum target award has been guaranteed for the Chief Operating Officer irrespective of the actual compound growth rate.

The Company recorded compensation expense of $404,000 (2006 - $235,000) for the year ended December 31, 2007. At December 31, 2007, accrued compensation payable in respect of the TSR Plan totaled $405,000 (2006 - $393,000).

(e) Deferred Share Unit Plan:

In January 2004, the Company introduced a Deferred Share Unit ("DSU") Plan for Directors and senior officers of the Company. The Plan, which allows for immediate vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSU's either increase or decrease in value in a direct relationship with the Company's Class "A" Subordinate Voting shares. Participants in the TSR Plan may elect to receive their award in DSU's at the end of any performance period. As there was no awards granted under the TSR Plan in 2007, this option was not utilized (2006 - 30,255 DSU's issued at an average value of $7.18 per unit).

DSU's may also be granted directly to Directors or senior employees of the Company at the discretion of the Board and Directors may also elect to take DSU's as payment of their annual retainer. In 2007 a total of 37,839 DSU's (2006 – 28,000) were granted to or taken by Directors under the plan at an average value of $7.79 (2006 - $7.02) per unit.

The Company recorded compensation recovery of $175,000 (2006 – expense of $218,000) for the year ended December 31, 2007 in respect of the DSU Plan. At December 31, 2007, the Company had 359,194 (2006 – 313,355) DSU's outstanding. Subsequent changes to share values will result in adjustments to compensation expense. At December 31, 2007, accrued compensation payable in respect of the DSU Plan totaled $2,041,000 (2006 - $2,250,000).

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

11. Other income:

	2007	2006
Gain on disposal of investments, surplus property, plant, equipment and roads	$ 4,767	$ 21,377
Gain on settlement of timber takeback	1,350	-
Other, net	(134)	(1,214)
	$ 5,983	$ 20,163

In 2007, the Company continued its disposal of surplus property, plant and equipment and sold its interest in Tree Farm Licence 54. These dispositions combined to generate sales proceeds of $6,906,000 and a gain of $4,767,000. In addition, under the terms of the Forest Revitalization Act, the Company received $1,350,000 in additional compensation for bridges resulting from the 2003 legislated takeback of certain logging rights on the B.C. Coast. The Company recorded $1,350,000 as proceeds on the disposal of bridges in 2007.

In 2006, the Company sold the inventories, property, plant and equipment of its MacKenzie Sawmill and Helifor Industries Limited and the shares of a wholly owned subsidiary, B.W. Creative Wood Industries Ltd. The sale of these three operating business units generated sales proceeds of $19,255,000 and a gain of $2,476,000. In addition, the Company disposed of all property, plant and equipment of Saltair Timber Products Ltd. and its Marysville Sawmill division in Marysville, Washington, and surplus equipment of Field Sawmill division on Vancouver Island, B.C. The sales of assets of these non-core operations, combined with sales of surplus logging and other assets, generated cash proceeds of $13,625,000 and a gain of $7,199,000.

During 2006, the Company also completed the sale of several surplus properties, including the properties at its former Empire site in Squamish, B.C. and its former Fraser Mill site in Coquitlam, B.C. Sales proceeds of surplus property totaled $17,507,000 and generated a gain of $11,702,000.

12. Restructuring costs and write-downs of plant and equipment:

The Company recorded restructuring costs, and write-downs of plant and equipment consisting of the following:

	2007	2006
Plant and equipment write-downs	$ -	$ 5,868
Severance and other restructuring costs, net of recoveries	1,975	1,709
	$ 1,975	$ 7,577

In 2007, the Company recorded severance and other restructuring costs totalling $2,315,000 in respect of early retirements and contractor buyouts, partially offset by the recovery of $340,000 from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia.

In 2006, the Company continued its programs to improve its competitive cost structure, resulting in the recording of severance of $3,396,000, partially offset by the recovery of $1,687,000 from the B.C. Forestry Revitalization Trust. The Company also continued its extensive evaluation of its operations, and identified certain B.C. coastal assets which it did not consider to be part of its future core operations, resulting in the recording of an impairment charge of $5,868,000 to reduce the carrying values of these assets to estimated fair values.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 53

12. Restructuring costs and write-downs of plant and equipment (continued):

As at December 31, 2007, $2,115,000 (2006 - $2,402,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2008 in accordance with its restructuring plans.

13. Income taxes:

Future income taxes are determined as follows:

	2007	2006
Future income tax assets:		
Losses carried forward	$ 25,035	$ 15,537
Reforestation, restructuring and other accruals deductible when paid	8,571	11,080
Alternative minimum tax credits	203	238
	33,809	26,855
Valuation allowance	-	-
	33,809	26,855
Future income tax liabilities:		
Property, plant and equipment	(36,544)	(32,735)
Other	(262)	(648)
	$ (2,997)	$ (6,528)
Current future income tax assets	$ 3,083	$ 4,179
Current future income tax liabilities	-	(364)
Non-current future income tax assets	7,000	445
Non-current future income tax liabilities	(13,080)	(10,788)
	$ (2,997)	$ (6,528)

The reconciliation of income taxes at the statutory rate to the income tax expense (recovery) is as follows:

	2007	2006
Income tax expense (recovery) at the statutory rate of 34.12% (2006 – 34.12%)	$ (9,213)	$ 46,995
Non-taxable income of investments accounted for by the equity method	(74)	(770)
Large corporations tax	-	(332)
Non-taxable portion of capital gains	(590)	(1,485)
Decrease in future federal income tax rates	(1,171)	-
Other	(2,635)	(2,208)
	$ (13,683)	$ 42,200

The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately $69,700,000 (2006 - $42,200,000) expire between 2008 and 2027, and are available to reduce future taxable income. The Company has $203,000 (2006 - $238,000) of Alternative Minimum Tax Credits arising from its U.S. operations which have an indefinite carry-forward.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 54

14. Commitments and contingencies:

(a) Operating leases and contractual obligations:

The Company is obligated under various operating leases and contracts requiring minimum annual payments in each of the next five years as follows:

2008	$ 31,200
2009	5,500
2010	4,000
2011	2,800
2012	2,400

The Company has undertaken obligations under various contracts totalling $24,300,000 as at December 3, 2007 relating to construction of a new sawmill at its Adams Lake operation in the southern B.C. Interior. These amounts are included in the 2008 in the payment schedule above.

(b) B.C. Forest Revitalization Plan:

In 2003, the Government of B.C. ("the Crown") introduced the Forestry Revitalization Plan ("the Plan") that provided for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. Through legislation, licensees, including the Company, were required to return 20% of their replaceable tenure and timber licences to the Crown. The Crown acknowledged that licensees would be fairly compensated for the return of tenure and related infrastructure costs.

In 2005, the Company received $23,260,000 in compensation for the loss of logging rights on the B.C. Coast. In 2007, the Company received an additional $1,350,000 for bridges under the terms of the Forest Revitalization Act. The Company has received substantially all of the compensation monies from the Crown that pertain to this agreement.

In addition to amounts received under the Forest Revitalization Act, the Company negotiated a settlement of $3,400,000 for forestry and engineering work related to timber returned pursuant to the Plan and has recorded the amount as a recovery of production costs.

(c) Central and North Coast Land Use Decisions:

On February 7, 2006, the Crown announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The decisions are the outcome of negotiations over several years between the Crown, First Nations, the forest industry, environmental groups, local governments and many other stakeholders.

The land use decisions protect vast areas of temperate rain forest, while providing a unique framework for the forest industry called Ecosystem Based Management ("EBM"). These agreements set the stage for a collaborative model to fully implement EBM in these areas by 2009. The combined Central Coast and North Coast Land and Resource Management Plan areas are approximately 6,400,000 hectares. The total combined protected areas for these regions are approximately 1,800,000 hectares.

On September 29, 2006, the Chief Forester of the Crown announced temporary reductions in the allowable annual cut ("AAC") in the plan areas by 572,000 cubic metres. The Company's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. The Company has not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating areas and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

14. Commitments and contingencies (continued):

(c) Central and North Coast Land Use Decisions (continued):

The amount and timing of any compensation payable to Interfor as a result of AAC reductions is not yet determinable, and will be recorded when the amounts can be reasonably estimated.

(d) Softwood Lumber Agreement

In October 2006 the federal governments of Canada and the United States implemented a new softwood lumber agreement ("SLA"). The terms included replacing the then existing countervailing and antidumping duties with a Canadian imposed export tax, or a combination of a lower tax and quota, both of which would vary based on the price of lumber and volume of shipments from Canada to the United States. All antidumping and countervailing duty orders were revoked and duties collected were refunded together with accrued interest, but were subject to a special charge of 18.06%, payable to the Canadian government. The duty refund monies of US$105,594,000, and the associated interest of US$13,341,000 were recorded net of the special charge of CAD$24,396,000 in 2006. The special charge liability was paid on January 31, 2007.

The 2006 SLA has a term of seven years and provides for an extension of two years and for early termination by either government after two years. Canadian softwood lumber exporters ("exporters") pay an export charge when the price of lumber is at or below US$355 per thousand board feet, as determined by the Random Lengths Framing Lumber Composite Price. The Province of British Columbia ("B.C.") had the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"), with the choice made separately for the B.C. Coast and B.C. Interior regions. The Province of B.C. chose Option A for both the B.C. Coast and the B.C. Interior, but has the opportunity to change options on January 1, 2010 and January 1, 2013. Export charges are recorded as export taxes on the statement of operations.

The SLA includes a surge mechanism that increases the export tax by 50% (the "Surge Tax") when the monthly volume of exports exceeds a certain trigger volume, as defined in the SLA. This calculation is based on estimated trailing U.S. lumber consumption. The U.S. Coalition for Fair Lumber Imports (the "Coalition") has asserted that the consumption volumes used in calculation of the applicability of a surge tax should be based on a 12 month rolling average actual volume. Under current market conditions, the use of actual consumption rather than expected consumption would decrease the surge trigger volume, and could cause the exporters to be liable for additional Surge Tax.

The issue is currently before the London Court of International Arbitration, with a decision expected by the end of the first quarter of 2008. The Canadian government is committed to defending its position that the Surge Tax does not apply to Canadian lumber exports to date. If the Surge Tax does apply, as asserted by the Coalition, the Company estimates it would incur additional export taxes of approximately $750,000 to December 31, 2007, which amount has not been recorded in these consolidated financial statements.

(e) Surety Performance Bonds

The Company has posted $6,797,000 in surety performance bonds, with expiry dates ranging March 2008 through November 2012.

(f) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

15. Net earnings per share:

Net earnings per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	2007			2006		
	Net earnings (loss)	Weighted average number of Shares	Per share	Net earnings (loss)	Weighted average number of Shares	Per share
Basic earnings (loss) per share	$ (13,321)	47,575	$ (0.28)	$ 95,534	48,482	1.97
Share options	-	556*	-	-	583	-
Diluted earnings (loss) per share	$ (13,321)	47,575	$ (0.28)	$ 95,534	49,065	$ 1.95

*Where the addition of share options to the total shares outstanding has an anti-dilutive impact on the diluted earnings (loss) per share calculation, those share options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per share.

16. Pension plans:

In Canada, the Company maintains pension benefit plans which include a defined contribution plan that is available to all salaried employees and a defined benefit plan that is available to all hourly employees not covered by a union pension plan. The defined benefit plan provides a pension based on years of service. In addition, the Company contributes to an industry-wide benefit plan for unionized employees. In the U.S., the Company maintains a defined contribution plan that is available to all employees.

Total cash payments for employee future benefits for 2007, consisting of cash contributed by the Company to its funded pension plans, cash contributed to its defined contribution plans, cash contributed to its multiemployer defined benefit plan and cash contributed to the senior management supplemental plans was $6,149,000 (2006 - $7,497,000).

(a) Defined contribution plan for Canada:

For the defined contribution plan, the Company's contributions are based on a percentage of an employee's earnings with the employee's pension benefits based on these contributions along with investment earnings on the contributions. For the defined contribution plan, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2007, the pension expense for this plan is equal to the Company's contribution of $1,688,000 (2006 - $1,470,000).

(b) Defined benefit plan:

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2006, and the next required funding valuation will be as of December 31, 2009.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

16. Pension plans (continued):

(b) Defined benefit plan (continued):

	2007	2006
Accrued benefit obligation:		
Beginning of year	$ 18,203	$ 17,026
Actuarial (gain) loss	2,595	-
Service cost	557	759
Interest cost on accrued benefit obligation	1,153	963
Benefit payments	(770)	(545)
End of year	21,738	18,203
Plan assets:		
Fair value, beginning of year	19,611	16,127
Expected return on plan assets	1,424	1,175
Employer contributions	1,971	1,565
Employee contributions	270	300
Benefit payments	(770)	(545)
Actuarial gain (loss)	(1,145)	989
Fair value, end of year	21,361	19,611
Funded status – plan surplus (deficit)	(377)	1,408
Unamortized actuarial loss	5,252	1,681
Accrued benefit asset	$ 4,875	$ 3,089

Plan assets consist of:

Asset category	2007	2006
	Percentage of plan assets	
Equity securities	62%	63%
Debt securities	35%	34%
Other	3%	3%
Total	100%	100%

The accrued benefit asset is included in the Company's balance sheet under Investments and other assets (note 4).

The Company's net expense for the Company's defined benefit pension plan is as follows:

	2007	2006
Current service cost	$ 279	$ 459
Interest cost	1,153	963
Expected return on plan assets	(1,424)	(1,175)
Amortization of experience losses	169	108
	$ 177	$ 355

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

16. Pension plans (continued):

(b) Defined benefit plan (continued):

Actuarial assumptions used in accounting for the Company maintained benefit plans are:

	2007	2006
Accrued benefit obligation as of December 31		
Discount rate	5.5%	5.5%
Compensation increases	Not applicable	Not applicable
Pension expense		
Discount rate	5.5%	5.5%
Expected return on plan assets	7.0%	7.0%
Compensation increases	Not applicable	Not applicable

(c) Unionized employees' pension plan:

The Company and its subsidiaries contribute to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2007, the pension expense for these plans is equal to the Company's contribution of $1,476,000 (2006 - $3,215,000).

(d) Defined contribution plan for U.S.:

For the 401K defined contribution plan, the contributions of IPI and Cedarprime Inc., the Company's U.S. operating subsidiaries, match employee contributions based on a percentage of the employee's earnings and vest immediately. The Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2007, the pension expense for this plan is equal to the Company's contribution of $582,000 (2006 - $604,000).

A second component to the 401K plan with contributions based on a discretionary profit sharing allocation was replaced with the matching component in 2005. Previous contributions under profit sharing allocation component continue to vest in years two through six of employment at a rate of 20% per annum. During 2007 the Company made no cash contributions (2006 - $304,000) and recorded no expense in respect of this component of the plan (2006 - $16,000 recovery).

(e) Senior management supplementary pension plan:

The Company has agreed to provide supplementary pension benefits to certain members of its senior management in the form of a notional extension of the defined contribution plan. These commitments are not funded but are fully accrued by the Company (note 8), with a portion of the commitments being secured by irrevocable letters of credit.

The Company also maintains a defined benefit plan for the survivor of a retired senior executive. The accrued benefit obligation is $947,000 (2006 - $1,650,000), of which $415,000 (2006 - $642,000) is funded. The remaining unfunded liability is fully accrued.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

16. Pension plans (continued):

(e) Senior management supplementary pension plan (continued):

The amounts accrued are as follows:

	2007	2006
Accrual for defined contribution commitments	$ 3,058	$ 2,826
Accrual for defined benefit commitments	532	1,008

17. Related party transactions:

Lumber sales to an affiliate of a significant shareholder amounted to $511,000 (2006 - $2,940,000). Shipping services provided by Seaboard Shipping Company Limited totaled $7,991,000 (2006 - $8,853,000). These transactions were conducted on a normal commercial basis, including terms and prices.

18. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests and purchases logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. Substantially all operations are located in British Columbia, Canada and the Pacific Northwest, U.S.A.

The Company sells to both foreign and domestic markets as follows:

	2007	2006
Canada	$ 222,276	$ 263,648
United States	272,571	424,253
Japan	51,402	67,104
Other export	64,759	69,434
	$ 611,008	$ 824,439

Sales by product line are as follows:

	2007	2006
Lumber	$ 434,468	$ 625,552
Logs	118,571	103,250
Wood chips and other by products	50,260	41,868
Other	7,709	53,769
	$ 611,008	$ 824,439

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

18. Segmented information (continued):

Capital assets, goodwill and other intangibles by geographic location are as follows:

	2007	2006
Canada	$ 232,988	$ 210,387
United States	138,529	161,301
	$ 371,517	$ 371,688

19. Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2007, the fair value of the Company's long-term debt approximated its carrying value of $34,696,000 (2006 - $40,789,000) as the long-term debt bore interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at December 31, 2007, the Company has outstanding obligations to sell a maximum of US$6,000,000 at an average rate of CAD$1.00 and Japanese ¥120,000,000 at an average rate of ¥107.68 to the CAD$1.00 and €100,000 at an average rate of 1.4711 to the CAD$1.00 during 2008. All foreign currency gains or losses to December 31, 2007 have been recognized in the statement of operations.

During September 2005, the Company entered into a cross currency interest rate swap. The Company has agreed to receive US$20,000,000 at maturity on September 1, 2009 in exchange for payment of CAD$23,530,000 (an exchange rate of 1.1765). In addition, during the term of the swap the Company will pay an amount based on annual interest of 5.84% on the CAD$23,530,000 and will receive 90 day LIBOR plus a spread of 200 basis points on the US$20,000,000. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009 and has been marked to market with all gains or losses on the swap recognized in the Statement of Operations.

(c) Hedge of investment in self-sustaining foreign operation:

The Company had previously designated its US dollar Non-Revolving Line as a hedge against its investment in its self-sustaining U.S. operations. Effective April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its hedge accounting. Previously recognized unrealized foreign exchange gains of $5,544,000 as a result of applying hedge accounting continue to be recorded in Accumulated Other Comprehensive Income. Unrealized foreign exchange gains of $5,716,000 arising subsequent to termination of the designation of the hedge relationship have been recorded in Other foreign exchange gain (loss) in the Statement of Operations.

19. Financial instruments (continued):

(d) Sale of receivables:

On December 15, 2006, the Company terminated its agreement to sell designated trade receivables, with limited recourse, to a Trust. In July, 2006 the Company had reduced securitized receivables from $25,000,000 to nil, resulting in a corresponding increase in accounts receivable.

20. Acquisition of Pope and Talbot, Inc. sawmills:

On January 7, 2008, the courts overseeing the creditor restructuring of Pope and Talbot, Inc. ("P&T") in Canada and the United States approved the sale of two southern B.C. interior sawmills and their related timber tenures and one sawmill in South Dakota to the Company for US$69,000,000 plus working capital and other adjustments. The transaction has also been approved by the Canadian Competition Bureau and the U.S. anti-trust authorities. Completion of the transaction remains conditional upon the receipt of certain other regulatory approvals which are expected to be granted late in the first quarter, or early in the second quarter of 2008. The Company has paid a US$8,800,000 deposit held in escrow in respect of this transaction, which is refundable should the transaction not complete due to circumstances beyond the Company's control.

The Company has also reached an agreement to sell the Spearfish, South Dakota sawmill, being acquired as part of the P&T transaction to Neiman Enterprises, Inc., a family owned company based in Wyoming, for US$14,000,000 plus working capital. The sale of the Spearfish sawmill will close concurrently with the P&T transaction.

21. Subsequent events:

(a) Bank financing

On February 1, 2008, the Company obtained a financing commitment from its lenders to increase and extend its syndicated credit facilities. The Operating Line will increase from $40,000,000 to $100,000,000. The Revolving Line will increase from $10,000,000 to $115,000,000. The existing US$35,000,000 Non-Revolving Line remains unchanged. The financing will close on the earlier of the P&T sawmills acquisition date or April 25, 2008. In the event that the P&T sawmills acquisition completes later than April 25, 2008, $55,000,000 of the Revolving Line will be made available on April 25, 2008, with the remainder of $60,000,000 made available when the P&T transaction completes. The Operating Line will mature 364 days from the financing closing date and the Revolving Line will mature three years from the financing closing date. All other terms and conditions of the lines remain substantially unchanged.

(b) Normal Course Issuer Bid

On January 3, 2008, the Company received approval to make a normal course issuer bid to acquire up to 1,300,000 Class A shares (representing approximately 2.8% of the outstanding Class A shares as at December 31, 2007) through the facilities of the Toronto Stock Exchange. Any Class A shares purchased by the Company will be at market prices and will be cancelled as purchased. The program commenced on January 8, 2008 and will terminate on the earlier of the date on which the Company has acquired 1,300,000 Class A shares and January 7, 2009.

INTERFOR

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of February 6, 2008

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FORWARD LOOKING STATEMENTS

This report contains statements that are forward looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates and other factors referenced herein (see "Risk Factors" below).

INTERFOR

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of February 6, 2008

DESCRIPTION OF THE BUSINESS

We are one of the Pacific Northwest's largest producers of quality wood products for sale to markets around the world. We have operations in British Columbia ("B.C."), Washington and Oregon, including three sawmills in the Coastal region of B.C., one in the B.C. Interior, one in Washington and two in Oregon. We also operate a value-added remanufacturing and specialty products facility in Washington.

Our Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963. On December 1, 1979 we amalgamated with our subsidiary, Whonnock Forest Products Limited. On January 1, 1988 we changed our name from Whonnock Industries Limited to International Forest Products Limited. On February 10, 2006 we transitioned under the *Business Corporations Act* (British Columbia). Our head office as well as our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company", "Interfor", "we" or "our" means International Forest Products Limited and its predecessors and all our subsidiaries. Our major subsidiary, Interfor Pacific Inc., owns and operates our U.S. sawmills. It is wholly owned and is incorporated in the State of Washington. Other wholly owned subsidiaries whose operations are described below are CEDARPRIME Inc. (incorporated in the State of Washington), and Interfor Japan Ltd. (incorporated in British Columbia).

HISTORY AND RECENT DEVELOPMENT OF THE BUSINESS

Our business originated in the 1930's with a sawmill in Whonnock, about 48 kilometers east of Vancouver B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources from other companies.

Early in 2005, the price of structural lumber products began to rebound in the North American market and the Canadian dollar weakened slightly to provide an improvement in economic conditions in the first quarter of the year. However, as the year continued, lumber prices weakened and the Canadian dollar strengthened providing more difficult economic conditions, particularly for the Canadian mills. On May 31, 2005 our U.S. subsidiary, Interfor Pacific Inc., acquired a large sawmill in Molalla, Oregon providing an attractive expansion opportunity while reducing our exposure to duties and currency fluctuations.

In May 2006, structural lumber prices in the North American market began a sharp decline and, in early October 2006, the Random Lengths Framing Lumber Composite Price reached its lowest level since January 2001. On April 27, 2006 the federal governments of Canada and the United States reached a framework softwood lumber agreement ("SLA") to resolve the softwood lumber dispute. On October 12, 2006 the terms of the SLA were implemented and the U.S. Department of Commerce revoked the antidumping and countervailing duty orders effective May 22, 2002 and instructed U.S. Customs and Border Protection to cease collecting duties effective October 12, 2006 and to refund duties collected since May 22, 2002 together with accrued interest. The Company received total refunds of countervailing and antidumping duties and related interest of US$118.9 million, before the deduction of a special charge of 18.06% of this amount which was paid to the Canadian federal government on January 31, 2007. At December 31, 2006, the majority of the cash refund was invested in short-term interest bearing securities, primarily denominated in U.S. dollars, with maturities of three months or less. During 2006 we disposed of numerous non-core assets including the Marysville and MacKenzie sawmills, B.W. Creative Wood Industries Ltd., our helicopter logging operation, non-core timber tenures, surplus land and other surplus logging and manufacturing assets. Total proceeds generated from these sales were $49.2 million. We also completed the contracting out or closure of all remaining Company owned logging operations. During 2006, we increased capital spending with major infrastructure and high-return

projects at the Adams Lake, Port Angeles and Molalla sawmills.

2007 was a very challenging year for the Company, with a combination of depressed North American structural lumber prices, a record-high Canadian dollar, and a 15% export tax. In addition, a 15 week strike by the United Steel Workers ("USW") in the second half of 2007 disrupted our B.C. Coastal lumber and logging operations. The combination of poor markets, export tax and high Canadian dollar significantly undermined the economics of the Company's Queensboro mill, located in New Westminster, B.C., and, in December, following a temporary curtailment the Company made the decision to idle the mill indefinitely. The Company is currently exploring alternatives for the Queensboro operation, including the possibility of selling the mill. In February 2007, the Company completed the installation of a new primary breakdown line at its Port Angeles operation. The new breakdown line is performing well ahead of targeted production and is delivering significant performance improvements. In late 2007, a new log merchandizer and planer were installed at Port Angeles. By year end, both installations were generating targeted productivity improvements. In April 2007, the Company's Board of Directors (the "Board") approved the construction of a new sawmill at Adams Lake, to replace the existing facility. The new mill, which is projected to cost in the region of $100 million, will incorporate proven technology and will materially improve the operating efficiency and cost structure of the existing operation. On November 19, 2007, the Company reached agreement with Pope and Talbot, Inc. ("P&T") to acquire its Castlegar and Grand Forks sawmill assets and related timber tenures in the Southern B.C. Interior, and the Spearfish sawmill assets in South Dakota. The purchase price is US$69 million, plus working capital. The Company subsequently signed an agreement with a private company to sell the Spearfish, South Dakota sawmill for US$14 million plus working capital, with the sale closing concurrently with the P&T transaction. Completion of the transaction remains conditional upon the receipt of certain regulatory approvals which are expected to be granted late in the first quarter, or early in the second quarter of 2008. The Company has paid a US$8,800,000 deposit held in escrow in respect of this transaction, which is refundable should the transaction not complete due to circumstances beyond the Company's control. The acquisition of these mills adds critical mass in one of the Company's core operating regions and will broaden the Company's product lines in both specialty and commodity grades.

With the prospect of a difficult year ahead in 2008, the Company will be maintaining tight control over cash, while remaining alert to selective growth opportunities in regions and products with attractive fundamentals. The rebuild of the Adams Lake sawmill and the P&T acquisition are the only major capital investments currently approved for 2008. See our Management Discussion and Analysis for the year ended December 31, 2007, a copy of which is available from SEDAR at www.sedar.com.

MANUFACTURING

We operate six sawmills and one remanufacturing plant in B.C., Washington and Oregon. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

- Interfor Sawmills

B.C. Interior – 300 MMbf
Adams Lake – 300 MMbf DFir & SPF Dimension

B.C. Coast – 520 MMbf
Hammond – 180 MMbf Cedar Specialty
Acorn – 160 MMbf Hem & DFir Japan/Specialty
Queensboro – 180MMbf (Indefinitely curtailed)

U.S. Pacific Northwest – 525 MMbf
Port Angeles – 150 MMbf Hem & DFir Studs
Molalla – 220 MMbf DFir & Hem Studs
Gilchrist – 155 MMbf Pines, DFir, White Fir Dimension/Specialty

The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In addition to improving our manufacturing capability through upgrades, we have increased our efficiency and geographic diversity and expanded our capacity through recent additions of sawmills in Washington and Oregon. These acquisitions also enabled us to expand our business while closing several sawmills for which upgrades would not have represented a viable investment.

Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

Sawmills	Normal Number of Shifts	Present Rated Capacity (1)	Years ended December 31 2007	2006	2005	2004	2003
	(per day)	(millions of board feet)					
B.C. Coast							
Hammond (2)	2	180	96	158	175	192	145
Acorn (2)	2	160	108	154	162	180	143
Queensboro (3)		180	38	111	53	82	33
B.C. Interior							
Adams Lake (4)	3	300	206	286	273	219	163
U.S. Pacific Northwest							
Gilchrist (5)	2	155	127	136	160	53	—
Molalla (6)	2	220	151	194	136	—	
Port Angeles (5)	2	150	129	96	123	41	—
Sawmills Closed or Sold							
MacKenzie (7)			—	43	57	47	42
Field (8)			—	—	—	94	101
Marysville (5)(9)			—	—	22	9	—
Squamish (10)			—	—	—	—	17
Total		1,345	855	1,178	1,161	917	644

(1) Based on the normal number of shifts per day and 250 operating days (Molalla 300 days) per year.
(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond and Acorn management amounting to 21 and 5 million board feet respectively in 2007.
(3) Queensboro (formerly Western Whitewood) was curtailed indefinitely in December 2007.
(4) Capacity based on 10 hour shifts.
(5) Gilchrist, Marysville and Port Angeles were acquired on September 1, 2004.
(6) Molalla was acquired on May 31, 2005. Capacity based on operating two 10 hour shifts 6 days per week.
(7) Volumes include custom-cutting.
(8) Field was permanently closed in February 2006.
(9) Marysville was permanently closed in December 2005.
(10) Squamish was curtailed in April 2003 and permanently closed in October 2004.

B.C. Coast Operations

Hammond

Hammond is a western red cedar manufacturing facility located on the Fraser River at Maple Ridge, B.C. The facility consists of a three-line sawmill, a planer mill and dry kilns. During 1998 and 2001, five new dry kilns were constructed at a total cost of $8 million. In 2002, we completed a $5 million capital project that reduced costs and increased product value by optimizing trimming and improving the mill flow. In order to complement the mill's product lines, Hammond directs some of its log supply to third-party facilities for custom-cutting under the direction of Hammond's management. The majority of Hammond's production is directed to North American markets.

Acorn

The Acorn operation is located on leased land in Delta, B.C. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. In 2001, capital projects totaling $18.0 million were completed upgrading the mill's log processing, lumber sorting, optimized trimming and lumber drying capability. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

Queensboro

Queensboro is located on the north arm of the Fraser River in New Westminster, B.C. The combination of poor markets, export tax and high Canadian dollar significantly undermined the economics of the division and, in December 2007, following a temporary curtailment, the Company made the decision to idle the mill indefinitely. The Company is currently exploring alternatives for the operation, including the possibility of selling the mill.

B.C. Interior Operations

Adams Lake

Adams Lake is our Interior sawmill located near Kamloops, B.C. The mill manufactures kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets. Adams Lake has the capability to cut Douglas-fir as well as spruce-pine-fir ("SPF"), western red cedar, and hemlock. In 2003, a planer and sorter were installed at a cost of $6.8 million and an additional dry kiln was constructed at a cost of $1.0 million. In 2006 and 2007 we spent $32.1 million on an energy system, new hog and barker and infrastructure improvements to facilitate further growth and cost savings. In 2007, to complete the overall plan for the site, the Company commenced the construction of a new sawmill at Adams Lake, to replace the existing facility. The new mill, which is projected to cost in the region of $100.0 million, will incorporate proven technology and will materially improve the operating efficiency and cost structure of the existing operation.

U.S. Operations

Gilchrist

The Gilchrist mill is located in Gilchrist, Oregon on approximately 140 acres. The previous owner invested approximately US$28 million in 2000 and 2001 to modernize the facility to efficiently convert small diameter logs. The mill primarily processes lodgepole pine, ponderosa pine and white fir to produce a wide range of specialty and dimension lumber products. The mill has an on-site cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber and chips and to deliver logs to the mill. In 2005 and 2006 we installed six new dry kilns at a cost of US$5.7 million to replace obsolete kilns and increase drying capacity. The installation is expected to improve product quality and increase sales value as well as allow for increased sawmill production. The installation of a US$1.5 million planer grade optimizer to improve both grade and volume recovery was completed in 2006.

Port Angeles

The Port Angeles mill was newly constructed in 1998 at a total cost of US$30 million. It is situated in Port Angeles, Washington on a 64 acre site near major highways and waterways which are convenient for shipping lumber and chips as well as for receiving logs at the mill. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market but is also capable of producing metric sizes for export. In 2005, we modified the dry kilns at a cost of US$1.1 million to increase drying capacity. We also installed a new planer grade optimizer, trimmer and sorter at a cost of US$5.0 million to increase planer capacity and significantly reduce planing costs. In 2006 and 2007, we constructed a new primary saw line at a cost of US$18.3 million to increase recovery and lumber production. This new line was commissioned in February and exceeded expected targets in April. In October we installed a new log merchandiser, planer and planer infeed at a total cost of US$5.8 million. The log merchandiser has attained expected targets and the planer and infeed is progressing as planned.

Molalla

The Molalla mill was acquired in May 2005. It is located in Molalla, Oregon approximately 30 miles southeast of Portland. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market. The mill's machine centres are fully optimized following an investment of more than US$10 million by the previous owners. A number of infrastructure

improvements were undertaken in 2005 and 2006 at a cost of US$5.8 million. In 2006, we also completed the construction of two dry kilns for US$2.4 million and a new planer mill complex with grade optimization for US$10.3 million. The new planer mill has reduced costs and increased grade realizations.

REMANUFACTURING

Most of our sawmills have some capability to process lumber beyond the primary stage. In order to increase sales margins, we have been adding value to our lumber products through increased remanufacturing activities at our own facilities described below, and by custom remanufacturing lumber in facilities owned by independent remanufacturers.

CEDARPRIME

CEDARPRIME Inc. is located on leased premises in Sumas, Washington approximately one kilometre south of the Canada/U.S. border. The plant has a siding line, chop line, planing and finger-jointing equipment as well as access to on-site dry kilns enabling it to produce 20 million board feet of finger-jointed and cut-stock products primarily for the U.S. market. Some of the products are sold under the brand name CEDARPRIME®.

Albion

The Albion facility is located on leased lands located 7 kilometres from the Hammond sawmill. Historically the plant processed high value finished cedar siding and paneling products. On January 31, 2008 the facility was permanently closed.

SALES, MARKETING AND COMPETITIVE POSITION

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number may be, in certain product lines, lower cost producers than Interfor.

The following table shows our lumber sales by geographic area and total sales by product line for the past five years:

	Years ended December 31				
	2007	**2006**	**2005**	**2004**	**2003**
	(thousands of dollars)				
Lumber					
— Canada	$ 76,909	$ 102,996	$ 88,621	$106,537	$82,305
— U.S.A	241,398	393,222	427,334	263,313	172,971
— Other export	104,392	114,937	128,109	234,909	203,790
	422,699	611,155	644,064	604,759	459,066
Offshore transportation and handling	11,769	14,397	17,419	29,106	27,338
Logs	118,571	103,250	105,107	136,921	92,181
Wood chips and other by-products	50,260	41,868	34,118	38,351	28,499
Contract services and other	7,709	53,769	41,875	34,700	33,882
Total sales	$611,008	$824,439	$842,583	$843,837	$640,966

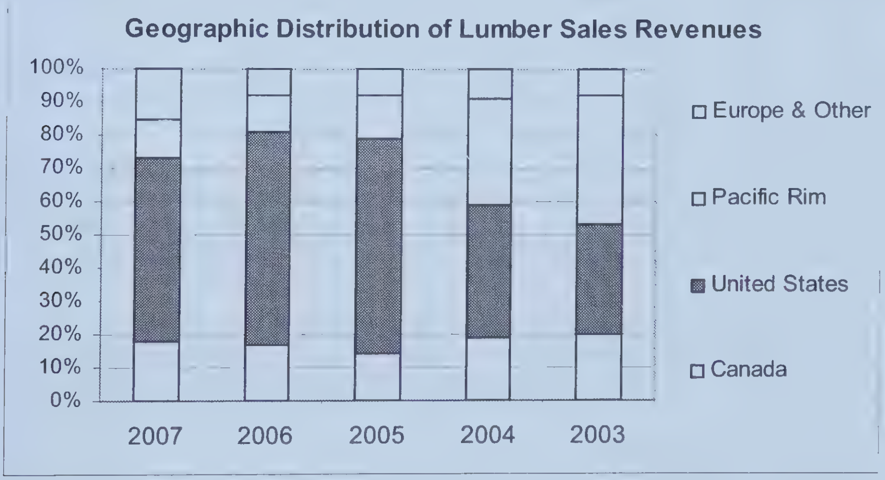
Lumber Sales

Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodeling market in North America has

become a significant consumer of lumber and has lessened the impact of fluctuations in new housing starts. In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and maintain product diversification. The Company has a particular customer and product base in various countries, providing us with a diversified sales profile. Product and market diversification is particularly important for B.C. Coast producers where the variability inherent in the log resource produces a much wider spectrum of product sizes and quality than is the case in the B.C. Interior or U.S. Pacific Northwest (the "PNW"). A continuing priority for us is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items.

Lumber sales and marketing activities are organized into Western Red Cedar, North American Dimension Lumber and Export Whitewood Groups. Our Tokyo-based subsidiary, Interfor Japan Ltd., has developed niche markets and has increased sales directly to end users. We also have an office in France. The major market for our cedar lumber continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales. Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, Japan, Asia and Australia. North American dimension and stud lumber produced in Canada and the U.S. is sold out of our office in Bellingham, Washington to leverage our U.S. expertise and to provide a more diverse customer base for the Canadian mills in terms of geographic and market sectors.

The following graph shows the percentage of lumber sales revenue to our major markets in the past five years:



Log Sales

We purchase and sell logs in order to obtain the appropriate size, grade, and species of log to suit market conditions and each mill's cutting preferences. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

Wood Chip and Sawmill Residuals Sales

In B.C., we have the capacity to produce approximately 280,000 volumetric units ("VUs") of wood chips per year in our coastal sawmill operations and approximately 130,000 bone dry units ("BDUs") of wood chips at Adams Lake. In 2007, Adams Lake operated below capacity primarily because of production curtailments in response to weak North American structural lumber markets and our B.C. Coast operations were impacted by the USW strike. This reduced Adams Lake chip shipments to 115,000 BDUs and coastal chip shipments to approximately 133,000 VUs for the year. Essentially all of our wood chips produced in B.C. are sold under contracts to pulp producers with terms varying from 1 to 25 years, with some contracts perpetually renewable by the pulp producer. Most of these wood chips are sold at prices

related to current Northern Bleached Softwood Kraft ("NBSK") pulp prices, while the balance is sold at current market prices for chips.

In Washington and Oregon, we have the capacity to produce approximately 200,000 bone dry units of chips in our sawmill operations. In 2007, approximately 160,000 bone dry units were produced. Chips from these operations are sold to pulp producers or fibre board manufacturers under short-term arrangements.

DISTRIBUTION

We use various modes of surface transportation to deliver our lumber products. We have a 60% interest in Seaboard Shipping Company Limited and arrange substantially all of our offshore transportation through them. Shipments of lumber within North America are made by truck and rail. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, we own a short line railroad to connect to a mainline for shipping lumber and chips.

TIMBER SUPPLY

British Columbia

The Province of British Columbia (the "Crown") owns about 95% of the timberlands from which the majority of timber is harvested. The remaining 5% of timberland is private land which is primarily located on Vancouver Island and held by a few large industrial forest landowners.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for management obligations and a fee payable to the Crown (referred to as stumpage).

Our timber supply needs are met by a combination of: internal logs harvested from our own timber tenures, long-term trade and supply agreements, and by purchases on the open market. When operating at normal capacity, our Coastal mills obtain approximately one-half of their log supply from external sources. The Adams Lake mill requires approximately three quarters of its log supply from external sources.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence ("TL") tenures that currently provide for an allowable annual cut ("AAC") of approximately of 2.7 million cubic metres (m^3). The majority of Interfor's tenures are long-term renewable agreements that are generally replaced every five years.

The B.C. Government (the "Crown") is responsible for making land use decisions that designate areas for primary uses such as parks or resource development. Most of the Province has completed comprehensive land use plans that involve an extensive public consultation process. In 2006, the Crown announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The land use decisions protect vast areas of temperate rain forest, and a commitment to Ecosystem Based Management ("EBM"). The purpose of EBM is to adopt a set of practices that will ensure the well being of ecosystems, people and their communities.

To account for the new protected areas, in 2006 the Chief Forester of the Crown announced temporary reductions in the AAC in the plan areas by 572,000 cubic metres. Interfor's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. New EBM legal objectives were introduced by the Crown in 2007 affecting a portion of the Company's operations. The AAC impact will be determined by a new timber supply analysis which has not yet been completed by the Crown. The Company anticipates there will be further reductions in AAC for areas impacted by the new EBM legal objective over the coming years. The magnitude of the AAC changes is not known at this time.

The Company anticipates receiving compensation for the AAC reductions and lost infrastructure once a permanent removal of AAC for the new protected areas has been made in accordance with the *Forest Act*. The amount and timing of any compensation as a result of these reductions is not yet determinable.

The Company will record any compensation at the time the amounts to be received can be confidently estimated.

On the Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the Interior, the species mix consists of SPF, Douglas-fir and cedar. The harvest is derived from both old growth and second growth stands. Whereas one-third of the harvest currently comes from second growth stands, this amount is expected to increase significantly over the next several decades.

The following table shows our AAC under our FL and TFL tenures and other cutting rights and the volume of timber harvested under our FL's and TFL's and other cutting rights in each region for the periods specified. They also show the volume of purchases and sales during that period.

	Years ended December 31					
B.C. Operations	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
	(thousands of cubic metres)					
Allowable Annual Cut [1]						
— Forest Licences	2,084	2,105	2,325	2,293	2,603	2,603
— Non Replaceable Forest Licences	375	155	155			
— Tree Farm Licences	196	262	272	517	551	551
— Discretionary Annual Harvest Levels [2]	40	40	65	80	80	80
— Less Provision for Harvest Take-back [3]	—	—	—	(235)	(579)	—
	2,695	2,562	2,817	2,655	2,655	3,234
Log Production						
— Coast		1,655	2,082	2,210	2,697	1,686
— Interior		112	299	348	267	279
Total Log Production		1,767	2,381	2,558	2,964	1,965
Log Purchases		1,316	1,487	1,595	1,880	1,557
Log Sales		1,223	1,190	1,360	1,636	1,142

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).
(2) Volumes not included in AAC.
(3) AAC take-back under the Forestry Revitalization Plan was completed during 2005.

U.S. Pacific Northwest

Timber supply in the PNW is derived from a broad distribution of forest land ownership (forest industrial lands; small private landowners; and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. About 70% of the log supply in the PNW comes from land that is owned by forest companies and small private landowners.

Our timber supply needs in Washington are primarily met by purchases from local forest industry private lands as well as small, individual private landowners. In Oregon, the mills are supplied by a combination of Federal and State land timber sales and forest industry private land purchases.

In Washington, our log purchases are primarily western hemlock and some Douglas-fir that come from local second growth forests.

In Oregon, log purchases for the Gilchrist mill consist primarily of lodgepole pine, ponderosa pine and white fir that have come from second growth harvesting and the thinning of young stands from surrounding National Forests. The Molalla mill purchases western hemlock and Douglas-fir logs primarily from nearby private industrial suppliers.

The total log supply requirement for the mills in the U.S. is projected to be approximately 205 million board feet in 2008. The proportion of timber derived from various sources is estimated to be as follows:

U.S. Pacific Northwest Operations	**Expected Sources of Timber 2008**
State and Federal Lands	28%
Industrial Lands	63
Private Lands	9
	100%

Forestry and Logging in B.C.

Forest and timber harvesting operations on Crown land in B.C. are regulated under the B.C. Government's *Forest and Range Practices Act (British Columbia)* and the *Forest Act (British Columbia)*. The Government is responsible for setting the AAC, approving forest development plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

Our Company is required to manage forest resources under our tenures in accordance with the requirements of the applicable laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We pay stumpage to the Province for timber harvested on Crown land according to pricing systems in place on the Coast and in the Interior. In 2007, we paid $23.0 million in stumpage to the Province for the harvest of 1.8 million m^3 of Crown timber.

Our Coastal logging operations are widely dispersed in primarily remote locations between Vancouver and Prince Rupert. Our woodlands harvesting activities are performed entirely by independent logging contractors. In 2006 we completed the process of transferring all of our remaining harvesting activities to independent contractors including the helicopter logging activities previously conducted by our wholly owned subsidiary, Helifor Industries Limited. Helicopter logging has normally accounted for approximately 30% of our Coastal harvest.

Our Interior woodlands operation is located at Adams Lake, northeast of Kamloops where harvesting activities are also performed by independent contractors.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. These and other factors are described in the Selected Quarterly Financial Information section of our Management Discussion and Analysis for the year ended December 31, 2007, a copy of which is available on SEDAR at www.sedar.com.

CAPITAL EXPENDITURES

Our acquisitions and capital expenditures on sawmill and logging operations and timber holdings are as shown in the following table:

	Years ended December 31				
	2007	2006	2005	2004	2003
	(thousands of dollars)				
Acquisitions					
Land, buildings, equipment					
— Manufacturing	—	—	$70,857	$74,979	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	—	—	—
	—	—	$70,857	$74,979	—
Other capital expenditures					
Land, buildings, equipment					
— Manufacturing and other	$47,948	$71,176	$57,404	$26,615	$21,940
— Forestry and logging	130	733	1,323	2,075	1,335
Logging roads and timber	28,340	18,694	20,136	28,940	16,625
	76,418	90,603	78,863	57,630	39,900
Total	$76,418	$90,603	$149,720	$132,609	$39,900

Our capital expenditures over the five years ended December 31, 2007 were financed through internally generated funds, through our bank lines and through proceeds generated from the sale of surplus land and other non-core and surplus logging and manufacturing assets.

HUMAN RESOURCES

In B.C., we directly employ approximately 900 people in our logging and manufacturing operations and corporate offices. The USW is the certified bargaining agent for approximately 460 of these people. The labour agreement with the USW was renewed during 2007 and expires on June 14, 2010. Prior to ratification of the new labour agreement in November 2007, the USW were on strike for 15 weeks. The strike resulted in significant lost lumber production at the Hammond and Acorn sawmills and reduced log production in our Coastal Woodlands.

In the U.S., we employ approximately 440 employees in our sawmill and remanufacturing operations in Washington and Oregon and in our office located in Bellingham, Washington.

Our employees are governed by a Policy Manual, including a Code of Conduct, Environment Policy, Health and Safety Policy, Disclosure Policy, Whistleblower Policy, Financial Reporting Policy, Internet, Email and Computer Use Policy, Harassment Policy and Smoking, Drug and Alcohol Policy. The Code of Conduct may be found on SEDAR at www.sedar.com. The Environment and Safety Policies are described below. Employees are also protected by a Privacy Policy. Our employees, management and directors have adopted the following Core Values:

Core Values

We will conduct ourselves with honesty, integrity and professionalism.

- **People:** People are the foundation of our business.
- **Safety:** Safety is a prerequisite for work.
- **Environment:** Environmental integrity must be maintained in everything we do.
- **Customers:** Customers pay our way.
- **Shareholders:** Returns to our shareholders facilitate investment, employment, and public benefits.

We Are Responsible For Our Own Success

HEALTH AND SAFETY

We maintain a Health and Safety Policy that demonstrates our commitment to the health, safety and well-being of all employees.

Our Board approved the policy and established a committee of the Board to monitor these safety commitments. The Environment and Safety Committee of the Board (the "E&S Committee") is mandated to monitor the implementation and maintenance of our policy of ongoing commitment to health and safety values and principles with continuous operational improvement. The E&S Committee ensures that our management develops, implements and maintains a comprehensive safety program.

Safety is a core value for us. We maintain an active and comprehensive safety program at each of our operations. Unfortunately in 2007 we suffered two separate fatalities at our Adams Lake facility. An intensive investigation was conducted by senior management resulting in significant changes in policies and procedures at Adams Lake to prevent a recurrence of these tragic events. The fatalities overshadowed some very good work at the other operations in the Company. Overall we reduced our Medical Incident Rate ("MIR") by 30% to 3.9 and our Loss Time Accident ("LTA") frequency by 33% to 1.2 when compared to 2006.

Our Coastal Woodlands operations became SAFE certified in 2007 for all of its direct employees. A number of our primary contractors also achieved SAFE certification during the year, and all have registered for the province-wide program managed by the B.C. Forest Safety Council.

Health And Safety Policy

Health and Safety is the uncompromised right and responsibility of all employees.

- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations.

International Forest Products Limited is committed to the health, safety, and well being of all employees.

THE ENVIRONMENT

We maintain an Environmental Policy that demonstrates our commitment to responsible stewardship of the environment.

Our Board approved the policy and established a committee of the Board to monitor our commitment to principles, values and policies on environment matters.

Management has implemented an environmental compliance program. External and internal audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

All of our woodlands operations have been independently certified to internationally recognized standards. Certification systems provide independent verification that environment and sustainable forestry standards are being met.

Our woodlands have been certified to the Sustainable Forestry Initiative® Program ("SFI") as an international standard for certification of forest land. The SFI program is a comprehensive system of principles, objectives and performance measures that combine the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality.

We maintain an Environmental Management System ("EMS") for all of our manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Each manufacturing business unit is responsible for compliance and ensuring the EMS is functioning as intended.

We monitor environmental performance at our mill sites and conduct audits to identify issues and assess compliance. All of our mills have received a high rating for environmental compliance.

We have also received Chain-of-Custody ("CoC") certification that tracks certified logs coming from sustainable forests through the manufacturing process. All of our Canadian mills were approved for SFI "on product" label use. In addition, certain mills have also obtained Smartwood, Forest Stewardship Council and KPMG Performance Registrar CoC certifications.

We believe that we are a global leader in environmental management through the application of science–based principles, collaborative approaches, sustainable forest practices and independent certifications. We were a recipient of the 2000 Millennium Business Award from the United Nations Environmental Programme and the International Chamber of Commerce.

Additional information about our environmental work, audit summaries and Forest Sustainability Report is available on our website at www.interfor.com.

Environment Policy

We are committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

RESEARCH AND DEVELOPMENT

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques, and anti-sapstain applications. We also are committed to applied research and development in the areas of environment, health and safety, forest management and product and market development. We also conduct product and market research on our own in Canada and the U.S.

RISK FACTORS

Certain information contained in this Annual Information Form is forward looking in nature and reflect management's current view of future events. Other information is historical but may result in expectations for future outcomes or circumstances. Interfor's operations and operating results are affected by various external and internal factors such as changes in product pricing and lumber export taxes, availability of log supply, currency exchange rates, interest rates, forest policy and stumpage rates. These and other risk factors are described in the Management Discussion and Analysis for the year ended December 31, 2007, a copy of which is available on SEDAR at www.sedar.com.

CAPITAL STRUCTURE

Our authorized share capital consists of 100,000,000 Class "A" Subordinate Voting shares without par value ("Subordinate Voting Shares"), 1,700,000 Class "B" Common shares without par value ("Multiple Voting Shares"), and 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof. The Subordinate Voting Shares and Multiple Voting Shares are referred to as "Equity Shares".

Subordinate Voting Shares

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Equity Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board except in certain circumstances where the holders of Preference shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference shares.

Multiple Voting Shares

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes on a poll for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board except one member to be elected by the holders of the Subordinate Voting Shares and, in certain circumstances, two directors to be elected by the holders of Preference shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.

Rights on Take-Over Bids and Conversion of Multiple Voting Shares

Any transfer of a Multiple Voting Share:

a. by any of the Estate of W.L. Sauder, members of his immediate family, their descendants and holding companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Preference shares, and Multiple Voting Shares at an

equivalent price; or

b. by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the Multiple Voting Shares into Subordinate Voting Shares.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

a. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or

b. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own Equity Shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding Equity Shares, or (ii) the issue of Equity Shares by way of a stock dividend other than an ordinary course stock dividend.

Preference Shares

The Preference shares of each series rank on a parity with the Preference shares of every other series, and are entitled to preference over the Equity Shares and over any other shares ranking junior to the Preference shares, with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

MARKET FOR SECURITIES

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A. The following table sets out the market price ranges for the Subordinate Voting Shares on the Toronto Stock Exchange for each month of the Company's most recently completed financial year (January 1, 2007 through December 31, 2007).

Toronto Stock Exchange 2007 Trading Volumes			
	High	**Low**	**Volume**
January	7.50	6.70	1,240,981
February	8.21	7.08	1,243,307
March	8.25	7.50	1,013,057
April	9.8	8.00	1,585,680
May	9.84	9.00	841,785
June	9.35	8.41	821,802
July	9.24	8.20	688,344
August	8.52	7.20	1,081,462
September	7.60	6.96	1,294,961
October	7.50	6.85	1,078,094
November	7.00	5.02	1,485,952
December	6.29	5.20	1,866,073

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out our current directors and executive officers, their respective municipalities of residence, principal occupations within the past five years and the period during which each director has served as a director.

Name and Municipality of Residence	Office	Principal Occupations and Position During Last Five Years	Director Since (f)
LAWRENCE I. BELL (c)(d)(e) .... Vernon, British Columbia Canada	Director	Served as non-executive Chairman of British Columbia Hydro and Power Authority, an electricity generation and distribution company, until December 2007. From August 2001 to November 2003, Mr. Bell was Chairman and CEO of British Columbia Hydro and Power Authority.	April 1998
DUNCAN K. DAVIES .... Vancouver, British Columbia Canada	Director and President and Chief Executive Officer of the Company		November 1998
HAROLD C. KALKE (a)(c) .... West Vancouver, British Columbia Canada	Director	President of Kalico Developments Ltd., a real estate development and management company.	July 2000
PETER M. LYNCH (b)(d) .... Toronto, Ontario Canada	Director	Executive Vice President and Director of Grant Forest Products Inc., a producer of OSB and engineered wood products.	October 2006
GORDON. H. MacDOUGALL (a)(b) .. West Vancouver, British Columbia Canada	Director	Vice Chairman of Connor, Clark & Lunn Investment Management Ltd., an asset management firm.	February 2007
J. EDDIE McMILLAN (a)(d) .... Perdido Key, Florida USA	Director	Independent Business Consultant; previously Executive Vice President – Wood Products Group of Willamette Industries, Inc.	October 2006
E. LAWRENCE SAUDER (c) .... Vancouver, British Columbia Canada	Chairman of the Board and Director	Chairman of Hardwoods Distribution Income Fund, a distributor of wood products and Chairman of Sauder Industries Limited, a manufacturer and distributor of building products.	April 1984
JOHN P. SULLIVAN (a)(b)(d) .... Vancouver, British Columbia Canada	Director	Retired; previously Vice President of the Company.	May 2001
DOUGLAS W.G. WHITEHEAD (b)(c) North Vancouver, British Columbia Canada	Director	President and Chief Executive Officer of Finning International Inc.	April 2007

(a) Member of the Audit Committee
(b) Member of the Corporate Governance Committee
(c) Member of the Management Resources and Compensation Committee
(d) Member of the Environment and Safety Committee
(e) Lead Director
(f) The directors of the Company are elected each year at the annual general meeting of the Company and hold office until the close of the next annual general meeting or until their successors are elected or appointed. The next annual general meeting of the Company will occur on April 24, 2008.

Name and Municipality of Residence	Office	Principal Occupations and Position During Last Five Years
DUNCAN K. DAVIES .... Vancouver, British Columbia Canada	President and Chief Executive Officer of the Company	
JOHN A. HORNING .... West Vancouver, British Columbia Canada	Senior Vice President, Chief Financial Officer and Corporate Secretary	Previously Vice President Finance and Corporate Development; Vice President of the Company.
SANDY M. FULTON .... Blaine, Washington USA	Senior Vice President and Chief Operating Officer	Previously Senior Vice President, U.S. Operations; Management Consultant to the forest and financial services industries; Executive Vice President Operations of Crown Pacific Limited Partnership (Forest Products).
OTTO F. SCHULTE .... Black Creek, British Columbia Canada	Vice President, Coastal Woodlands	Previously General Manager, Campbell River Operations of the Company.
RICHARD J. SLACO .... Delta, British Columbia Canada	Vice President and Chief Forester	Previously Chief Forester of the Company.
STEPHEN D.A. WILLIAMS ...... North Vancouver, British Columbia Canada	Vice President and Corporate Treasurer	Previously Corporate Treasurer of the Company.
ALAN R. NICHOLL .... West Vancouver, British Columbia Canada	Corporate Controller	Previously Director, Finance of Catalyst Paper Corporation.

As at December 31, 2007, the directors and officers of the Company owned, directly or indirectly, or exercised control of or direction over 1,318,307 Subordinate Voting Shares representing approximately 2.9% of the outstanding Subordinate Voting Shares as at December 31, 2007, and 1,011,735 Multiple Voting Shares representing approximately 99.6% of the outstanding Multiple Voting Shares as at December 31, 2007. In respect of the foregoing, the outstanding Multiple Voting Shares are owned by Mountclair Investment Corporation. All the issued shares of Mountclair Investment Corporation are owned by a holding company that is indirectly owned by E. Lawrence Sauder, a Director, and other members of his immediate family. E. Lawrence Sauder controls or directs the exercise of the voting rights attached to the voting securities of the Company held by Mountclair Investment Corporation with respect to routine matters such as the election of directors and appointment of auditors.

LEGAL PROCEEDINGS

We are not a party to and our property is not the subject of any material legal proceedings which are currently in place or which we know to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the commencement of our most recently completed financial year, and for the three most recently completed financial years, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

TRANSFER AGENTS

The transfer agent for our Subordinate Voting Shares is Computer Share Investor Services Inc. at its principal offices in Vancouver, British Columbia.

MATERIAL CONTRACTS

The Company entered into an agreement with Pope & Talbot, Inc., Pope & Talbot Ltd., Pope & Talbot Lumber Sales, Inc. and Pope & Talbot Spearfish Limited Partnership (collectively, "Pope & Talbot") on November 19, 2007 for the purchase of Pope & Talbot's Castlegar (British Columbia), Grand Forks (British Columbia) and Spearfish (South Dakota) sawmill assets and related timber tenures. The purchase price is US $69 million, plus working capital. The transaction is currently expected to close in the first quarter, or in the second quarter of 2008.

EXPERTS

KPMG LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Institute of Chartered Accountants of British Columbia and the applicable rules and regulations thereunder.

AUDIT COMMITTEE INFORMATION

The Audit Committee Terms of Reference

The Audit Committee (the "Committee") is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Company's financial statements, the financial reporting process, the systems of internal accounting and financial controls, the professional qualifications and independence of the external auditors, the performance of the external auditors, risk management processes, financial plans, pension plans, and compliance by the Company with ethics and legal and regulatory requirements. The Committee's Terms of Reference, attached as Appendix "A" hereto, sets out its responsibilities and duties.

Composition of the Audit Committee

The Committee consists of four directors: Harold C. Kalke (Chair), Gordon H. MacDougall, J. Eddie McMillan and John P. Sullivan. Each Committee member is independent and financially literate in compliance with *Multilateral Instrument 52-110 – Audit Committees*.

Relevant Education and Experience

The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his responsibilities as a member of the Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Company to prepare its annual and interim financial statements.

Mr. Harold Kalke

Mr. Kalke is the Chairman of the Committee. He is a businessman with extensive experience in real estate development and in the oil and gas sector. He is currently the President of Kalico Developments Ltd., a real estate development and management company. He has a Bachelor of Science degree in engineering and a Masters in Business Administration from the University of Western Ontario.

Mr. Kalke has served on the Committee since July 18, 2000.

Mr. Gordon MacDougall

Mr. MacDougall is Vice Chairman of Connor, Clark & Lunn Investment Management Ltd. He has spent most of his career in the investment management business. He holds a CFA from the University of

Virginia (1976), a MBA from the University of Pittsburgh (1969) and a B.Comm (Finance) from Sir George Williams University (now Concordia University) (1968).

Mr. MacDougall has served on the Committee since April 26, 2007.

Mr. Eddie McMillan

Mr. McMillan is an independent business consultant. He retired as Executive Vice President – Wood Products Group of Willamette Industries in April 2002. He has served as a Director of Forest Express, Inc. and on numerous Industry Association Boards, including the American Plywood Association, National Particleboard Association, Particleboard and MDF Institute, Southern Forest Products Association, Western Wood Products Association, National Association of Lumber Wholesalers, and the American Forest and Paper Association. He has a degree in Accounting from Louisiana Tech University.

Mr. McMillan has served on the Committee since April 26, 2007.

Mr. John Sullivan

Mr. Sullivan retired in 2003 from his position as a Vice President of the Company. He joined Interfor following the acquisition of Primex Forest Products Ltd. ("Primex"), where he was Vice President, Corporate Development. He served in various management capacities during his 30 years with Primex. He also served on the Board of Primex, Air Canada and several private companies.

Mr. Sullivan has served on the Committee since April 27, 2007.

Provision of Services by the Company's External Auditor

The Committee annual recommends the appointment of the Company's external auditors and approves the annual audit plan and compensation of the external auditors for all audit, audit related and non-audit services. In the case of non-audit services, the services and compensation is approved by the Committee before the services commence.

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company. Fees to KPMG LLP for the years ended December 31, 2007 and December 31, 2006 were as follows:

	2007 Fees	2006 Fees
Audit and audit-related fees:		
Audit of the consolidated financial statements	$ 337,000	$ 387,500
Quarterly reviews	96,000	90,000
Audit-related fees (1)	79,700	51,500
Total audit and audit-related fees	512,700	529,000
Tax fees (2)	223,981	160,992
All other fees - forestry certification audits	60,800	65,980
- internal control over financial reporting advisory fees	1,913	145,000
- due diligence advisory fees	8,250	12,800
TOTAL	$ 807,644	$ 913,772

(1) Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan, subsidiary companies, and advice and assistance related to accounting issues.

(2) Tax fees consist of fees for tax compliance services, professional services related to U.S. cross border transfer pricing and sales tax.

CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of the code, entitled "Code of Conduct", can be found on our website at www.interfor.com.

ADDITIONAL INFORMATION

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular.

Additional financial information about the Company is provided in the Company's financial statements and Management's Discussion and Analysis for the year ended December 31, 2007.

Copies of the documents referred to above are available on the SEDAR website at www.sedar.com and may also be obtained upon request from:

International Forest Products Limited
Corporate Secretary
3500-1055 Dunsmuir Street
Vancouver, British Columbia,
Canada, V7X 1H7
Telephone: 604 689 6800
Facsimile: 604 689 6825
E-mail: info@interfor.com

Additional information relating to the Company may be found on the SEDAR website at www.sedar.com.

Appendix "A"

INTERNATIONAL FOREST PRODUCTS LIMITED

AUDIT COMMITTEE
Terms of Reference

Purpose

The Audit Committee under powers delegated to it by the Board is mandated to:

1. Review Annual and Quarterly Financial Statements and certain other legally required financial documents before they are approved by the Board;
2. Meet with the shareholders' auditors independently of Management on a quarterly basis;
3. Review the nature and scope of the Annual Audit; and
4. Review the adequacy of internal control procedures and systems.

Composition and Term of Office

The Audit Committee shall consist of four or more Directors. All members of the Audit Committee shall be independent within the meaning of *Multilateral Instrument 52-110–Audit Committees*. All members should be financially literate and at least one member should have accounting or related expertise. The Chairman of the Audit Committee along with other Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM. A quorum shall consist of a simple majority.

Duties and Responsibilities

Except as specifically authorized by the Board, the Audit Committee shall perform the following functions.

1. Schedule regular meetings. Extraordinary meetings may be called by any member of the Audit Committee or at the request of the Chairman of the Board.
2. Appoint a Secretary who shall record the proceedings of the Committee's meetings.
3. Report to the Board activities and recommendations, if any, requiring Board approval.
4. Examine and review the Annual and Quarterly Financial Statements and/or any Prospectus of the Company and, if appropriate, recommend approval by the Board. This review will involve discussions with the Company's Auditor ("the Auditor"), including an opportunity for an in-camera meeting.
5. Review the Annual and Quarterly Management Discussion and Analysis ("MD&A"), and earnings press releases prior to dissemination, and, if appropriate, recommend approval by the Board.
6. Review matters related to internal controls of the Company. Ensure that the necessary measures are taken to follow up suggestions from the Auditors' Reports.
7. Review the principal financial risks of the Company and ensure that an effective risk management strategy is in place.
8. Review the Company's derivatives policies and activities, including details of exposures to banks and other counterparties.
9. Recommend the appointment of the Auditor and negotiate the terms of reference and compensation for the Audit.
10. Approve all non-financial audit services provided to the Company by the Auditor prior to the service being provided.
11. Oversee the activities of the Auditor who reports directly to the Audit Committee.

12. Review procedures used by Management to ensure the integrity of all public disclosures.
13. Review the policies and procedures for handling concerns expressed with respect to the Company's accounting, internal controls and audit procedures; including reports under the Whistleblower Policy.
14. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.

GLOSSARY

"Adjusted EBITDA" EBITDA less U.S. duty refunds, net and other income.

"**Allowable Annual Cut (AAC)"** The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

"Bone Dry Unit (BDU)" A unit of measurement for wood chips and other sawmill by-products, being equal to 2,400 pounds.

"**Cash flow from operations**" Cash generated from operations before considering changes in operating working capital.

"**Custom cutting**" An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

"**EBITDA**" Earnings before interest, income taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber.

"**Forest Licence**" Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

"**m³**" A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

"**Mfbm**" or "**Mbf**" One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

"Pre-tax return on total assets" Earnings (loss) before taxes, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber, U.S. duty refunds, net and Other income divided by closing total assets.

"**Return on average invested capital**" Net earnings (loss) plus after tax interest cost (excluding interest income on U.S. duty refund, net of special charge) divided by the average of opening and closing invested capital (the total of bank indebtedness, short-term advances from the Seaboard partnership, long-term debt and shareholders' equity).

"**Return on average shareholders' equity**" Net earnings (loss) divided by the average of opening and closing shareholders' equity.

"**Silviculture**" The art and science of controlling the establishment, growth, composition, health and quality of forests.

"**Stumpage**" A charge assessed by the provincial government on all Crown timber harvested.

"**Sustained yield (sustainable log supply)"** The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

"**Timber Licence**" Non-replaceable, area based, Crown timber cutting rights.

"**Total Debt**" The total of bank indebtedness, short-term advances from the Seaboard partnership, long-term debt.

"**Tree Farm Licence**" A renewable 25-year licence to manage a forest area to yield an annual harvest on a sustainable basis.

"**Value-added product**" A commodity or other product that has been further processed to increase financial value.

"**Volumetric unit**" A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet. A volumetric unit represents between 60% and 85% of the chips in a Bone Dry Unit, depending on the species.

"**Whitewood**" Includes the Coastal species Hemlock, Balsam Fir, Douglas Fir and Spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.

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